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EXHIBITS

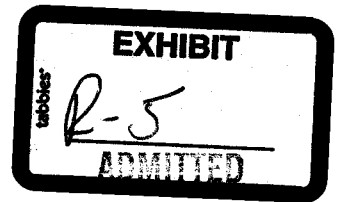
W-01303A-08-0227

SW-01303A-08-0227

PART 3 OF 3

**To review Part 1 please see:
BAR CODE #0000095496**

**To review Part 2 please see:
BAR CODE #0000095518**



ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 9, 2009

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INTRODUCTION

Q. Please state your name, position, employer and address.

A. Rodney L. Moore, Public Utilities Analyst V

Residential Utility Consumer Office

1110 West Washington Street, Suite 220

Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Arizona-American Water Company ("Company" or "AZ-AM") application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended December 31, 2007.

BACKGROUND

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's filing as it relates to operating income, rate base, the Company's overall revenue requirement and rate design. My recommendations are based on these analyses. Procedures performed include the in-house formulation and analysis of several sets of data requests, the review and analysis of Company responses to Commission Staff data requests, conversations with Company personnel and the review of prior ACC dockets related to AZ-AM.

The Company's filing consists of an application for increases in rates and charges for seven Districts: Agua Fria Water District, Havasu Water District, Mohave Water and Mohave Wastewater Districts, Paradise Valley Water District, Sun City West District and Tubac Water District.

RUCO's participation in this proceeding is the cumulative effort of three RUCO witnesses; myself (Rodney L. Moore), Timothy J. Coley and William A. Rigsby. For the review and analysis procedures, specific Districts were assigned to Mr. Coley and myself. I was assigned Paradise Valley Water District ("PV"), Sun City West Water District ("SCWW"), Tubac Water District ("Tubac") and Agua Fria Water District ("Agua Fria"). Mr. Coley was assigned Havasu Water District, Mohave Water District and

1 Mohave Wastewater District. However, to avoid confusion and duplication
2 the testimony filed by RUCO in support of its analysis was allocated
3 among the analysts by ratemaking elements.
4

5 Q. Please explain how these ratemaking elements were allocated?

6 A. I will address issues related to operating income. Mr. Coley will address
7 issues related to the rate base. Mr. Rigsby will provide an analysis of cost
8 of capital, Paradise Valley Water District's public safety and system-
9 benefit surcharges, Tubac Water District's arsenic cost recovery
10 mechanism ("ACRM"), the Company wide fuel and power supply adjustor,
11 and the pro forma tank maintenance expense. Moreover, each witness
12 will address the appropriate revenue requirement for the Districts
13 analyzed.
14

15 Also, I will address rate design in my testimony to be filed January 18,
16 2009.
17

18 Q. Please identify the exhibits you are sponsoring.

19 A. I am sponsoring Schedules for PV, SCWW, Tubac and Agua Fria
20 numbered RLM-1 through RLM-14.
21
22
23

SUMMARY OF ADJUSTMENTS

Q. Please summarize the adjustments to the operating income in your testimony.

A. My testimony addresses the following issues:

Operating Income

RUCO is in substantial agreement with several of the Company's pro-forma adjustments. Nevertheless, RUCO reserves the right to alter its position if additional evidence is produced in this case, which warrants RUCO to reconsider its position. RUCO did not make any adjustments to Company's pro-forma adjustments identified as:

- Unbilled revenue;
- Eliminate Surcharges;
- Miscellaneous Revenue Adjustments;
- Annualize Arsenic Cost Recovery Mechanism ("ACRM") Surcharge;
- Annualize Year-End Customers;
- Annualize Payroll Expense;
- Annualize Power Expense;
- Annualize Purchased Water Expense;
- Annualize Management Fees Expense;
- Annualize Pensions Expense;
- Annualize Insurance Expense;
- Annualize 401(k) Expense;
- Remove Central Arizona Project ("CAP") Revenue and Expense;
- Interest Synchronization;
- Annualize Postage Increase;
- One-Time Service Company Charges;
- Adjust Conservation Expense;

1 Adjustment To Remove Prior Period Labor Adjustment; and
2 Remove Groundwater Savings Revenue and Expenses In SCWW.

3 However, through the analytic process, RUCO did make prudent revisions
4 to the Company's filing. The RUCO operating income adjustments are
5 identified as:

6 Annualize Chemicals Expense – This is a conforming adjustment to reflect
7 a Company correction identified in its response to RUCO data request
8 1.37.

9 Amortize Rate Case Expense - This adjustment is based on RUCO's
10 determination of the fair and reasonable cost to AZ-AM ratepayers for this
11 application process.

12 Waste Disposal Expense - This is a conforming adjustment to reflect a
13 Company correction identified in its response to Staff data request GTM
14 8.7.

15 Annualize Depreciation Expense and CIAC Amortization - This adjustment
16 reflects depreciation and amortization expenses calculated on RUCO's
17 recommended gross plant in service.

18 Annual Incentive Pay - This adjustment reflects a reasonable sharing of
19 costs between shareholders and ratepayers.

20 Labor Expense – This is a conforming adjustment to reflect a Company
21 correction identified in its response to Staff data request GTM 8.2.

22 Line 21 Clean-Up - RUCO expanded the scope of the Company's
23 proposed adjustment to miscellaneous expense adjustments and removed

1 inappropriate expenditures not necessary in the provisioning of utility
2 service.

3 Federal and State Income Taxes Expense - This adjustment reflects
4 income tax expenses calculated on RUCO's recommended revenues and
5 expenses.

6
7 **Rate Design**

8 Q. Please explain your contribution to RUCO's recommended rate designs.

9 A. I was responsible for producing an accurate set of bill determinants for the
10 Districts analyzed (i.e. test-year customer bill counts and water
11 consumed). After reviewing the Company's workpapers, RUCO accepted
12 AZ-AM's bill determinants adjusted for weather normalization and
13 customer annualization. I will be filing Rate Design Schedules for all
14 Districts on January 18, 2009 as part of RUCO's rate design
15 recommendations. A discussion of RUCO's proposed rate design will be
16 contained in my testimony, also to be filed on January 18, 2009.

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedule RLM-1, RUCO is recommending that the increase in the Company's revenue requirement not exceed:

<u>PV</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$3,101,550	\$1,636,188	(\$1,465,362)
<u>SCW</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$4,276,305	\$3,375,778	(\$900,527)
<u>Tubac</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$278,214	\$210,004	(\$68,210)
<u>Agua Fria</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$9,192,203	\$3,582,770	(\$5,609,433)

My recommended revenue requirement percentage increase versus the Company's proposal is as follows:

<u>PV</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	39.52%	20.85%	(18.67%)
<u>SCW</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	75.00%	59.21%	(15.79%)
<u>Tubac</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	65.17%	49.19%	(15.98%)
<u>Agua Fria</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	48.85%	19.04%	(29.81%)

RUCO's recommended increase in Fair Value Rate Base ("FVRB") based on the Original Cost Rate Base ("OCRB") is summarized on Schedule RLM-1:

<u>PV</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$40,864,986	\$37,018,940	(\$3,836,046)
<u>SCW</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$37,901,085	\$38,261,042	\$359,957
<u>Tubac</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$1,527,454	\$1,433,161	(\$94,293)
<u>Agua Fria</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$96,976,396	\$64,667,787	(\$32,308,609)

RUCO's recommended required operating income is shown on Schedule RLM-1 as:

<u>PV</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$3,432,659	\$2,591,326	(\$841,333)
<u>SCW</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$3,183,691	\$2,678,273	(\$505,418)
<u>Tubac</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$128,306	\$100,321	(\$27,985)
<u>Agua Fria</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$8,146,017	\$4,526,745	(\$3,619,272)

1 **OPERATING INCOME**

2 Operating Income Summary

3 Q. Is RUCO recommending any changes to the Company's proposed
4 operating expenses?

5 A. Yes. RUCO witnesses analyzed the Company's twenty-five adjustments
6 to its historical test-year operating income and made several adjustments
7 to the operating income as filed by the Company. The cumulative review,
8 analysis and adjustments completed by each RUCO witness are
9 explained below.

10
11 AZ-AM Operating Income Adjustment SLH-4 – Annualize Chemicals
12 Expense

13 Q. Please explain RUCO's adjustment to chemical expenses.

14 A. This is a specific adjustment for PV to conform with the Company's
15 revised level of arsenic-related chemical costs as explained in AZ-AM's
16 response to RUCO data request 1.37

17
18 AZ-AM Operating Income Adjustment SLH-8 - Amortize Rate Case
19 Expenses

20 Q. Please explain your adjustment rate case expense.

21 A. This adjustment considers several elements. RUCO's analysis
22 determined that even though the Company requested \$612,000 in its
23 direct testimony, the Company made an error in its calculation and the

1 actual amount the Company is requesting is \$424,265. Moreover, the
2 Company made other computation errors when calculating the test-year
3 rate case expense level for several of the Districts.

4
5 RUCO believes the \$424,265 actually computed by the Company is a fair
6 and reasonable financial burden to the ratepayers to prepare and process
7 this rate application, amortized over three years.

8
9 As shown on Schedule RLM-10, RUCO calculates each District's
10 amortized level of test-year rate case expense. RUCO's recommended
11 rate case expense level would mirror the Company's requested amount if
12 not for computation errors, such as:

- 13 1. SCWW - The Company failed to make an adjustment for the
14 rate case expenses associated with the prior rate case.
- 15 2. Tubac - The Company used the incorrect 4-factor allocation value
16 in determining the District's level of rate case expense associated
17 with the instant case.
- 18 3. Mohave Water - The Company failed to make an adjustment for the
19 rate case expenses associated with the prior rate case.
- 20 4. Mohave Wastewater - The Company failed to make an adjustment
21 for the rate case expenses associated with the prior rate case.

RUCO Operating Income Adjustment RLM-4 – Waste Disposal Expense

Q. Please explain RUCO's adjustment to labor expenses.

A. This adjustment conforms with the Company's revised level of test-year waste disposal as explained in AZ-AM's response to Staff data request GTM 8.7.

AZ-AM Operating Income Adjustment SLH-11 – Annualize Depreciation Expense and Amortization of CIAC

Q. Please explain your adjustment to annualize depreciation and amortization of CIAC expense.

A. This adjustment reflects RUCO's level of test-year gross plant in service multiplied by the depreciation rates provided by the Company in response to RUCO data requests 1.07 and 1.08.

AZ-AM Operating Income Adjustment SLH-12 – Annualize Property Taxes Expense

RUCO has not made an adjustment to the methodology used by AZ-AM in calculating the property tax expenses as filed by the Company in the instant rate application. However, RUCO still remains adamant that the use of proposed revenues to determine an appropriate level of property tax expense to be recovered through rates distorts the methodology employed by the Arizona Department of Revenue and overstates the expense level.

1 RUCO is in the process of gathering information to produce a clear and
2 concise report, which will provide overwhelming evidence in the hope of
3 eventually overturning the Commission's repeated approval for the use of
4 proposed revenues to determine an appropriate level of property tax to be
5 recovered from rates.

6
7 However, RUCO has made adjustments to the property tax expense
8 based on its calculation of adjusted and proposed operating revenues.

9
10 Specific adjustments are shown on Schedules RLM-7, column (B) and
11 supporting Schedule RLM-8.

12
13 RUCO Operating Income Adjustment RLM-5 – Annual Incentive Pay
14 Expense

15 Q. Please describe RUCO's adjustment to Annual Incentive Pay ("AIP").

16 A. This adjustment to AIP reflects the authorized adjustment accepted in the
17 Company's Paradise Valley Water District rate case in Decision No. 68858
18 (July 28,2006). The Commission decision stated the following:

19 RUCO recommends disallowing 30 percent, or \$5,555 of the
20 \$18,517 in Arizona Corporate allocated management fees
21 related to the Company's Annual Incentive Plan expenses,
22 because 30 percent of the AIP is directly related to Company
23 financial performance measures and 70 percent to
24 operational and individual performance measures (RUCO

1 Br. at 18). RUCO argues that the 30 percent portion of AIP
2 expenses based on financial performance measures benefit
3 only shareholders....

4
5 We agree with RUCO that shareholders are the primary
6 beneficiaries of additional profit the Company achieves as
7 the result of the Company meeting its financial targets, and
8 therefore find RUCO's proposal to disallow the 30 percent of
9 the AIP that is based on the Company's financial
10 performance measures to be reasonable and appropriate.
11

12 Q. Has the Commission relied on RUCO's recommendation in Decision No.
13 68858 to make a similar adjustment to any other AZ-AM District?

14 A. Yes. The Commission's recent Decision No. 70351 (May 16, 2008)
15 authorized a similar RUCO adjustment for the Sun City Water District.
16 Therefore, RUCO recommends the Commission again authorize a thirty
17 percent decrease in the AIP expense.
18

19 RUCO Operating Income Adjustment RLM-6 – Labor Expense

20 Q. Please explain RUCO's adjustment to labor expenses.

21 A. This is a specific adjustment for Agua Fria Water, Mohave Water and Sun
22 City West Water Districts to conform with the Company's revised level of
23 test-year labor costs as explained in AZ-AM's response to Staff data
24 request GTM 8.2.
25

AZ-AM Operating Income Adjustment SLH-16 – Line 21 Clean-Up

Q. Please explain your analysis of the miscellaneous operating expense account that resulted in your removal of inappropriate or unnecessary costs for the provisioning of water and wastewater service.

A. After review of the Company's work papers associated with AZ-AM adjustment SLH-16 – Line 21 Miscellaneous Expense Clean Up, I determined there were numerous expenditures that were questionable, inappropriate and/or unnecessary.

Therefore, as summarized on Schedule RLM-12, I have made an adjustment to remove test-year expenses related to payments for memberships, gifts, awards, and for various meals and refreshments, which are not necessary in the provisioning of water and wastewater service.

As shown on Schedule RLM-7, column (H) and supporting Schedule RLM-12, this adjustment consists of two elements. The first element decreased Corporate Office miscellaneous expenses allocated in total to the seven Districts in this filing by \$13,608.

The second element removed miscellaneous expenses recorded directly by each individual District. The total of these miscellaneous expenses for all seven Districts was \$3,173.

1 Therefore, this adjustment removes \$16,781 in test-year miscellaneous
2 expenses from this filing.

3
4 AZ-AM Operating Income Adjustment SLH-19 – Income Tax Expense

5 Q. Please explain RUCO's adjustment to the income tax expenses.

6 A. This adjustment reflects income tax expenses calculated on RUCO's
7 recommended revenues and expenses.

8
9 Specific adjustments are shown on Schedules RLM-78, column (IQ) and
10 supporting Schedule RLM-13.

11
12 Q. Does this conclude your direct testimony?

13 A. Yes, it does.

APPENDIX 1

Qualifications of Rodney Lane Moore

EDUCATION: Athabasca University
Bachelor's Degree in Business Administration - 1993

EXPERIENCE: Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona 85007
May 2001 - Present

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

Auditor
Arizona Corporation Commission
Phoenix, Arizona 85007
October 1999 - May 2001

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RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>
Rio Verde Utilities, Inc	WS-02156A-00-0321
Black Mountain Gas Company	G-03703A-01-0283
Green Valley Water Company	W-02025A-01-0559
New River Utility Company	W-01737A-01-0662

Utility Company**Docket No.**

Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al.
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801
Gold Canyon Sewer Company	SW-02519A-06-0015
Arizona-American Water Company	WS-01303A-06-0403
UNS Gas, Inc.	G-04204A-06-0463 et al.
UNS Electric, Inc.	E-04204A-06-0783
Tucson Electric Power Company	E-01933A-07-0402
Southwest Gas Company	G-01551A-07-0504

AGUA FRIA WATER DISTRICT

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TESTIMONY		RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED AMORTIZATION OF CIAC
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TESTIMONY		RATE BASE ADJUSTMENT NO. 5 - DEFERRED DEBITS
RLM-5	1 & 2	RATE BASE ADJUSTMENT NO. 6 - ALLOWANCE FOR WORKING CAPITAL
TESTIMONY WAR		RATE BASE ADJUSTMENT NO. 7 - REMOVE CWIP ASSOCIATED WITH THE WHITE TANKS PROJECT
RLM-6	1	OPERATING INCOME
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RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - TEST YEAR DEPRECIATION EXPENSE
RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE
TESTIMONY	1	OPERATING INCOME ADJUSTMENT NO. 4 - WASTE DISPOSAL EXPENSE
RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 5 - ANNUAL INCENTIVE PAY EXPENSE
TESTIMONY	1	OPERATING INCOME ADJUSTMENT NO. 6 - ONLY AGUA FRIA, MOHAVE WATER AND SUN CITY WEST CONFORMING ADJUSTMENT TO COMPANY REVISIONS LABOR
RLM-12		OPERATING INCOME ADJUSTMENT NO. 7 - REMOVE INAPPROPRIATE/UNNECESSARY MISC. EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 96,976,396	\$ 64,667,787
2	Adjusted Operating Income (Loss)	\$ 2,601,288	\$ 2,326,884
3	Current Rate Of Return (L2 / L1)	2.68%	3.60%
4	Required Operating Income (L5 X L1)	\$ 8,146,017	\$ 4,526,745
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 5,544,729	\$ 2,199,861
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6578	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 9,192,203	\$ 3,582,770
9	Adjusted Test Year Revenue	\$ 18,818,613	\$ 18,818,614
10	Proposed Annual Revenue (L8 + L9)	\$ 28,010,816	\$ 22,401,384
11	Required Percentage Increase In Revenue (L8 / L9)	48.85%	19.04%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 4,526,745			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	2,326,884			
13	Required Increase In Operating Income (L11 - L12)		\$ 2,199,861		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 1,617,966			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	235,057			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 1,382,909		
17	Total Required Increase In Revenue (L13 + L16)		\$ 3,582,770		
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 22,401,384	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			16,256,672	
20	Synchronized Interest (Col. (C), L37)			1,952,967	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 4,191,744	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 292,081
24	Fed. Taxable Income (L21 - L23)			\$ 3,899,664	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			1,211,986	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 1,325,886
31	Combined Federal And State Income Tax (L23 + L30)				\$ 1,617,966
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 235,057
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 1,382,909
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 64,667,787	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,952,967	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 211,145,154	\$ 18,581	\$ 211,163,735
2	CWIP - White Tanks	25,000,000	(25,000,000)	\$ -
3	Accumulated Depreciation	(20,033,433)	716,219	(19,317,214)
4	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 216,111,721</u>	<u>\$ (24,265,200)</u>	<u>\$ 191,846,521</u>
5	Advances In Aid Of Const.	\$ (98,233,813)	\$ -	\$ (98,233,813)
6	Contribution In Aid Of Const.	\$ (29,706,549)	\$ (3,432,286)	\$ (33,138,835)
7	Accumulated Amortization Of CIAC	1,435,287	28,016	1,463,303
8	NET CIAC (L6 + L7)	<u>\$ (28,271,263)</u>	<u>\$ (3,404,270)</u>	<u>\$ (31,675,532)</u>
9	Imputed Regulatory Advances	\$ -	\$ -	\$ -
10	Imputed Regulatory Contributions	\$ (796,965)	\$ -	\$ (796,965)
11	Customer Meter Deposits	\$ (19,040)	\$ -	\$ (19,040)
12	Deferred Income Taxes And Credits	\$ 2,839,311	\$ -	\$ 2,839,311
13	Investment Tax Credits	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 3,529,517	\$ (3,321,116)	\$ 208,401
15	Allowance For Working Capital	\$ 1,816,928	\$ (1,318,023)	\$ 498,905
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
17	Rounding	\$ (1)	\$ -	\$ (1)
18	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 96,976,396</u>	<u>\$ (32,308,609)</u>	<u>\$ 64,667,787</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECTN	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 ACC AMORT PER GB 18.7	(E) ADJMT NO. 4 UPIS PER GB 9.4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) ADJMT NO. 7 WHITE TANKS CWIP	(I) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 211,145,154	\$ -	\$ -	\$ -	\$ 18,581	\$ -	\$ -	\$ -	\$ 211,163,735
2	CWIP - White Tanks	25,000,000	-	-	-	-	-	-	(25,000,000)	\$ -
3	Accumulated Depreciation	(20,033,433)	718,594	-	-	(2,375)	-	-	-	(19,317,214)
4	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 216,111,721</u>	<u>\$ 718,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,000,000)</u>	<u>\$ 191,846,521</u>
5	Advances In Aid Of Const.	\$ (98,233,813)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (98,233,813)
6	Contribution In Aid Of Const.	\$ (29,706,549)	\$ -	\$ (3,432,286)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (33,138,835)
7	Accumulated Amortization Of CIAC	1,435,287	-	-	28,016	-	-	-	-	1,463,303
8	NET CIAC (L6 + L7)	<u>\$ (28,271,263)</u>	<u>\$ -</u>	<u>\$ (3,432,286)</u>	<u>\$ 28,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (31,675,532)</u>
9	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Imputed Regulatory Contributions	\$ (796,965)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (796,965)
11	Customer Meter Deposits	\$ (19,040)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (19,040)
12	Deferred Income Taxes And Credits	\$ 2,839,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,839,311
13	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 3,529,517	\$ -	\$ -	\$ -	\$ -	\$ (3,321,116)	\$ -	\$ -	\$ 208,401
15	Allowance For Working Capital	\$ 1,816,928	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,318,023)	\$ -	\$ 498,905
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	Rounding	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
18	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 96,976,396</u>	<u>\$ 718,594</u>	<u>\$ (3,432,286)</u>	<u>\$ 28,016</u>	<u>\$ 16,206</u>	<u>\$ (3,321,116)</u>	<u>\$ (1,318,023)</u>	<u>\$ (25,000,000)</u>	<u>\$ 64,667,787</u>

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reinstatement Company's Adjustment To Remove CIAC Associated With CWIP
- Column (D): Adjustment No. 3 - Conforming Adjustment Per Company Response To Staff DR GB 18.7
- Column (E): Adjustment No. 4 - Conforming Adjustment Per Company Response To Staff DR GB 9.4
- Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
- Column (G): Adjustment No. 7 - Allowance For Working Capital
- Column (H): Adjustment No. 6 - Remove Company's Adjustment To Include CWIP Associated With The White Tanks Project
- Column (I): Sum Of Columns (A), (B), (C), (D), (E), (F), (G) & (H)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2001

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 67093 - ADJUSTED				RUCO ADJUSTED PRIOR TEST YEAR		
			DEP. RATE	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	ACC. DEP. ADJUSTMENT	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.00%	\$ 1,229	\$ -	\$ -	\$ -	\$ 1,229	\$ -
2	302000	Franchises	0.00%	78,887	-	-	-	78,887	-
3	303200	Land & Land Rights SS	0.00%	217,682	-	-	-	217,682	-
4	303300	Land & Land Rights P	0.00%	47,681	-	-	-	47,681	-
5	303400	Land & Land Rights TD	0.00%	225	-	-	-	225	-
6	303600	Land & Land Rights AG	0.00%	-	-	-	-	-	-
7	304100	Struct & Imp SS	2.50%	1,137,673	(43,705)	-	-	1,137,673	(43,705)
8	304200	Struct & Imp P	1.67%	1,246,735	(43,890)	-	-	1,246,735	(43,890)
9	304300	Struct & Imp WT	1.67%	39,917	(3,097)	-	-	39,917	(3,097)
10	304400	Struct & Imp TD	1.67%	-	-	-	-	-	-
11	304600	Struct & Imp Offices	2.03%	98,201	(7,979)	-	-	98,201	(7,979)
12	304800	Struct & Imp Misc	0.00%	-	-	-	-	-	-
13	305000	Collect & Impounding	0.00%	-	-	-	-	-	-
14	307000	Wells & Springs	2.52%	4,041,995	(284,050)	-	-	4,041,995	(284,050)
15	310100	Power Generation Equip Other	0.00%	-	-	-	-	-	-
16	311200	Pump Equip Electric	4.42%	14,538,912	(1,681,972)	-	-	14,538,912	(1,681,972)
17	311300	Pump Equip Diesel	4.42%	25,799	(18,816)	-	-	25,799	(18,816)
18	311500	Pump Equip Other	4.42%	697	(292)	-	-	697	(292)
19	320100	WT Equip Non-Media	4.00%	377,497	(40,880)	-	-	377,497	(40,880)
20	330000	Dist Reservoirs & Standpipe	1.67%	2,861,627	3,199	-	-	2,861,627	3,199
21	331001	TD Mains Not Classified By Size	1.53%	21,390,029	-	-	-	21,390,029	-
22	331100	TD Mains 4in & Less	1.53%	-	(1,577,034)	-	-	-	(1,577,034)
23	331200	TD Mains 6in to 8in	1.53%	-	-	-	-	-	-
24	331300	TD Mains 10in to 16in	1.53%	-	-	-	-	-	-
25	331400	TD Mains 18in And Greater	2.34%	-	-	-	-	-	-
26	332000	Fire Mains	1.53%	-	-	-	-	-	-
27	333000	Services	2.48%	2,694,166	(258,328)	-	-	2,694,166	(258,328)
28	334100	Meters	2.51%	1,744,305	(126,715)	-	-	1,744,305	(126,715)
29	334200	Meter Installations	2.51%	-	-	-	-	-	-
30	335000	Hydrants	2.00%	2,799,956	(213,717)	-	-	2,799,956	(213,717)
31	339100	Other P/E Intangible	0.00%	115,264	-	-	-	115,264	-
32	339500	Other P/E TD	0.00%	-	-	-	-	-	-
33	340100	Office Furniture & Equip	4.04%	85,784	(11,659)	-	-	85,784	(11,659)
34	340200	Comp & Periph Equip	4.04%	61,885	(5,294)	-	-	61,885	(5,294)
35	341100	Trans Equip Lt Duty Trks	25.00%	289,554	(199,890)	-	-	289,554	(199,890)
36	341200	Trans Equip Hvy Duty Trks	25.00%	-	-	-	-	-	-
37	342000	Stores Equipment	3.92%	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	4.02%	3,677	(743)	-	-	3,677	(743)
39	344000	Laboratory Equipment	3.71%	-	-	-	-	-	-
40	345000	Power Operated Equipment	5.20%	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	10.30%	3,801	(3,867)	-	-	3,801	(3,867)
42	346300	Comm Equip Other	4.93%	58,572	(20,517)	-	-	58,572	(20,517)
42	TOTAL			\$ 53,961,750	\$ (4,539,246)	\$ -	\$ -	\$ 53,961,750	\$ (4,539,246)
43	Company As Filed			\$ 53,961,750	\$ (4,539,246)	\$ -	\$ -	\$ 53,961,750	\$ (4,539,246)
44	Difference			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:

Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	-	-	-	78,887	-	78,887
3	303200	Land & Land Rights SS	-	-	-	217,682	-	217,682
4	303300	Land & Land Rights P	(9,000)	-	-	38,681	-	38,681
5	303400	Land & Land Rights TD	-	-	-	225	-	225
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	117,718	-	(28,564)	1,255,391	(72,269)	1,183,122
8	304200	Struct & Imp P	355,369	-	(21,068)	1,603,104	(64,958)	1,538,146
9	304300	Struct & Imp WT	43,696	-	(697)	83,613	(3,794)	79,819
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(1,993)	98,201	(9,972)	88,229
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	77,613	-	(102,027)	4,119,608	(386,077)	3,733,531
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	(631,038)	(31,482)	(645,553)	13,876,392	(2,296,043)	11,580,349
17	311300	Pump Equip Diesel	-	-	(1,140)	25,799	(19,956)	5,843
18	311500	Pump Equip Other	-	-	(31)	697	(323)	374
19	320100	WT Equip Non-Media	(49,000)	(764)	(15,009)	327,733	(55,125)	272,608
20	330000	Dist Reservoirs & Standpipe	(721,898)	-	(47,287)	2,139,729	(44,088)	2,095,641
21	331001	TD Mains Not Classified By Size	(17,597,764)	-	(2,418)	3,792,265	(2,418)	3,789,847
22	331100	TD Mains 4in & Less	21,396,217	(639)	(327,289)	21,395,578	(1,903,684)	19,491,894
23	331200	TD Mains 6in to 8in	1,900,958	-	(1,233)	1,900,958	(1,233)	1,899,725
24	331300	TD Mains 10in to 16in	1,364,853	-	(870)	1,364,853	(870)	1,363,983
25	331400	TD Mains 18in And Greater	-	-	-	-	-	-
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	938,357	(7,828)	(68,207)	3,624,695	(318,707)	3,305,988
28	334100	Meters	468,514	-	(44,826)	2,212,819	(171,541)	2,041,278
29	334200	Meter Installations	83,516	-	(196)	83,516	(196)	83,320
30	335000	Hydrants	1,323,434	-	(57,103)	4,123,390	(270,820)	3,852,570
31	339100	Other P/E Intangible	-	-	-	115,264	-	115,264
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	-	-	(3,466)	85,784	(15,125)	70,659
34	340200	Comp & Periph Equip	-	-	(2,500)	61,885	(7,794)	54,091
35	341100	Trans Equip Lt Duty Trks	19,897	-	(72,596)	309,451	(272,486)	36,965
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	-	-	(148)	3,677	(891)	2,786
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	-	-	(392)	3,801	(4,259)	(458)
42	346300	Comm Equip Other	9,804	-	(3,190)	68,376	(23,707)	44,669
42	TOTAL		\$ 9,092,246	\$ (40,713)	\$ (1,447,803)	\$ 63,013,283	\$ (5,946,336)	\$ 57,066,947
43	Company As Filed		9,092,246	(40,713)	(1,413,268)	63,013,283	(5,952,514)	57,060,769
44	Difference		\$ -	\$ -	\$ (34,536)	\$ -	\$ 6,177	\$ 6,177

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	28,684	-	-	107,571	-	107,571
3	303200	Land & Land Rights SS	-	-	-	217,682	-	217,682
4	303300	Land & Land Rights P	-	-	-	38,681	-	38,681
5	303400	Land & Land Rights TD	-	-	-	225	-	225
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	404,406	-	(31,811)	1,659,797	(104,080)	1,555,717
8	304200	Struct & Imp P	1,573,447	-	(27,538)	3,176,551	(92,496)	3,084,055
9	304300	Struct & Imp WT	(31,000)	-	(943)	52,613	(4,737)	47,876
10	304400	Struct & Imp TD	1,566,697	-	(1,090)	1,566,697	(1,090)	1,565,607
11	304600	Struct & Imp Offices	-	(3,391)	1,398	94,810	(5,183)	89,627
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	2,424,191	-	(106,900)	6,543,799	(492,977)	6,050,822
15	310100	Power Generation Equip Other	451,929	-	-	451,929	-	451,929
16	311200	Pump Equip Electric	2,614,619	(4,376)	(623,950)	16,486,635	(2,915,617)	13,571,018
17	311300	Pump Equip Diesel	-	-	(1,140)	25,799	(21,097)	4,702
18	311500	Pump Equip Other	354,596	-	(684)	355,293	(1,007)	354,286
19	320100	WT Equip Non-Media	360,054	(4,194)	(13,605)	683,593	(64,536)	619,057
20	330000	Dist Reservoirs & Standpipe	5,635,509	-	(39,669)	7,775,238	(83,757)	7,691,481
21	331001	TD Mains Not Classified By Size	1,814,857	-	(64,722)	5,607,122	(67,140)	5,539,982
22	331100	TD Mains 4in & Less	3,773	-	(327,401)	21,399,351	(2,231,085)	19,168,266
23	331200	TD Mains 6in to 8in	4,944,680	-	(41,028)	6,845,638	(42,261)	6,803,377
24	331300	TD Mains 10in to 16in	5,945,556	-	(26,914)	7,310,409	(27,784)	7,282,625
25	331400	TD Mains 18in And Greater	211,113	-	(412)	211,113	(412)	210,701
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	1,377,337	-	(97,230)	5,002,032	(415,937)	4,586,095
28	334100	Meters	441,500	-	(58,104)	2,654,319	(229,645)	2,424,674
29	334200	Meter Installations	185,520	-	(2,717)	269,036	(2,913)	266,123
30	335000	Hydrants	1,724,481	-	(89,205)	5,847,871	(360,026)	5,487,845
31	339100	Other P/E Intangible	-	-	-	115,264	-	115,264
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	-	(74,201)	70,735	11,583	129,811	141,394
34	340200	Comp & Periph Equip	-	-	(2,500)	61,885	(10,294)	51,591
35	341100	Trans Equip Lt Duty Trks	-	-	(77,363)	309,451	(349,849)	(40,398)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	-	-	(148)	3,677	(1,039)	2,638
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	233,939	-	(2,400)	237,740	(6,658)	231,082
42	346300	Comm Equip Other	-	-	(3,371)	68,376	(27,078)	41,298
42	TOTAL		\$ 32,265,888	\$ (86,162)	\$ (1,568,711)	\$ 95,193,009	\$ (7,428,886)	\$ 87,764,123
43	Company As Filed		32,265,888	(86,162)	(1,583,417)	95,193,009	(7,992,273)	87,200,736
44	Difference		\$ -	\$ -	\$ 14,706	\$ -	\$ 563,387	\$ 563,387

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	-	-	-	107,571	-	107,571
3	303200	Land & Land Rights SS	270,268	-	-	487,950	-	487,950
4	303300	Land & Land Rights P	14,185	-	-	52,866	-	52,866
5	303400	Land & Land Rights TD	624,427	-	-	624,652	-	624,652
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	2,401,260	-	(53,131)	4,061,057	(157,211)	3,903,846
8	304200	Struct & Imp P	918,822	-	(56,853)	4,095,373	(149,349)	3,946,024
9	304300	Struct & Imp WT	7,106	-	(904)	59,719	(5,641)	54,078
10	304400	Struct & Imp TD	1,620,595	-	(26,577)	3,187,292	(27,667)	3,159,625
11	304600	Struct & Imp Offices	-	-	(1,925)	94,810	(7,108)	87,702
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	(1,117,894)	-	(167,074)	5,425,905	(660,051)	4,765,854
15	310100	Power Generation Equip Other	(234,432)	-	-	217,497	-	217,497
16	311200	Pump Equip Electric	2,378,595	(13,429)	(762,311)	18,851,801	(3,664,500)	15,187,301
17	311300	Pump Equip Diesel	3,773	-	(1,161)	29,572	(22,258)	7,314
18	311500	Pump Equip Other	1,059,028	-	(26,156)	1,414,321	(27,162)	1,387,159
19	320100	WT Equip Non-Media	(78,547)	(2,784)	(27,920)	602,262	(89,672)	512,590
20	330000	Dist Reservoirs & Standpipe	(2,933,181)	-	(120,191)	4,842,057	(203,947)	4,638,110
21	331001	TD Mains Not Classified By Size	129,616	-	(85,395)	5,736,738	(152,534)	5,584,204
22	331100	TD Mains 4in & Less	10,472	-	(327,451)	21,409,823	(2,558,536)	18,851,287
23	331200	TD Mains 6in to 8in	4,265,931	-	(117,085)	11,111,569	(159,346)	10,952,223
24	331300	TD Mains 10in to 16in	503,257	-	(119,935)	7,813,666	(147,720)	7,665,946
25	331400	TD Mains 18in And Greater	1,444,883	-	(6,417)	1,655,996	(6,829)	1,649,167
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	1,097,719	-	(128,309)	6,099,751	(544,246)	5,555,505
28	334100	Meters	421,063	(1,155)	(69,953)	3,074,227	(298,443)	2,775,784
29	334200	Meter Installations	522,194	(1,296)	(8,987)	789,934	(10,604)	779,330
30	335000	Hydrants	1,619,435	-	(121,630)	7,467,306	(481,656)	6,985,650
31	339100	Other P/E Intangible	-	-	-	115,264	-	115,264
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	-	-	(468)	11,583	129,343	140,926
34	340200	Comp & Periph Equip	9,398	-	(2,623)	71,283	(12,917)	58,366
35	341100	Trans Equip Lt Duty Trks	(20,677)	-	(75,424)	288,774	(425,273)	(136,499)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	-	-	(148)	3,677	(1,186)	2,491
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	102,570	-	(28,529)	340,310	(35,187)	305,123
42	346300	Comm Equip Other	289,563	-	(5,703)	357,939	(32,780)	325,159
42	TOTAL		\$ 15,329,429	\$ (18,664)	\$ (2,342,258)	\$ 110,503,774	\$ (9,752,480)	\$ 100,751,294
43	Company As Filed		15,329,429	(18,664)	(2,339,762)	110,503,774	(10,332,035)	100,171,739
44	Difference		\$ -	\$ -	\$ (2,496)	\$ -	\$ 579,555	\$ 579,555

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	252,348	-	-	359,919	-	359,919
3	303200	Land & Land Rights SS	600,128	-	-	1,088,078	-	1,088,078
4	303300	Land & Land Rights P	-	-	-	52,866	-	52,866
5	303400	Land & Land Rights TD	-	-	-	624,652	-	624,652
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	1,314,655	-	(105,138)	5,375,712	(262,350)	5,113,362
8	304200	Struct & Imp P	143,784	-	(68,697)	4,239,157	(218,046)	4,021,111
9	304300	Struct & Imp WT	-	-	(997)	59,719	(6,638)	53,081
10	304400	Struct & Imp TD	118,143	-	(53,474)	3,305,435	(81,140)	3,224,295
11	304600	Struct & Imp Offices	-	-	(1,925)	94,810	(9,033)	85,777
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	3,389,362	-	(145,052)	8,815,267	(805,103)	8,010,164
15	310100	Power Generation Equip Other	698,433	-	-	915,930	-	915,930
16	311200	Pump Equip Electric	1,238,792	(33,473)	(844,155)	20,057,120	(4,475,182)	15,581,938
17	311300	Pump Equip Diesel	-	-	(1,307)	29,572	(23,565)	6,007
18	311500	Pump Equip Other	295,397	-	(65,233)	1,709,718	(92,395)	1,617,323
19	320100	WT Equip Non-Media	263,614	-	(25,199)	865,876	(114,870)	751,006
20	330000	Dist Reservoirs & Standpipe	2,008,430	-	(87,855)	6,850,487	(291,803)	6,558,684
21	331001	TD Mains Not Classified By Size	(75,805)	-	(87,460)	5,660,933	(239,994)	5,420,939
22	331100	TD Mains 4in & Less	35,773	-	(327,621)	21,445,596	(2,886,157)	18,559,439
23	331200	TD Mains 6in to 8in	5,673,615	-	(187,152)	16,785,184	(346,498)	16,438,686
24	331300	TD Mains 10in to 16in	7,306,854	-	(137,753)	15,120,520	(285,473)	14,835,047
25	331400	TD Mains 18in And Greater	1,328,938	-	(44,714)	2,984,934	(51,543)	2,933,391
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	1,963,422	-	(158,884)	8,063,173	(703,129)	7,360,044
28	334100	Meters	388,125	(91)	(80,563)	3,462,261	(378,915)	3,083,346
29	334200	Meter Installations	384,323	(1,840)	(22,059)	1,172,417	(30,824)	1,141,593
30	335000	Hydrants	1,816,394	-	(155,618)	9,283,700	(637,273)	8,646,427
31	339100	Other P/E Intangible	-	-	-	115,264	-	115,264
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	14,988	-	(493)	26,571	128,850	155,421
34	340200	Comp & Periph Equip	26,946	(20,780)	(2,883)	77,449	4,980	82,429
35	341100	Trans Equip Lt Duty Trks	2,185	-	(72,216)	290,959	(497,490)	(206,531)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	-	-	(148)	3,677	(1,334)	2,343
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	-	-	-	-	-	-
41	346100	Comm Equip Non-Telephone	943,224	-	(46,816)	1,283,534	(82,003)	1,201,531
42	346300	Comm Equip Other	-	-	(17,646)	357,939	(50,427)	307,512
42	TOTAL		\$ 30,132,068	\$ (56,184)	\$ (2,741,058)	\$ 140,579,658	\$ (12,437,354)	\$ 128,142,304
43	Company As Filed		30,113,487	(56,184)	(2,712,039)	140,561,077	(13,044,074)	127,517,003
44	Difference		\$ 18,581	\$ -	\$ (29,019)	\$ 18,581	\$ 606,720	\$ 625,301

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 4, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 4, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	-	\$ 1,229
2	302000	Franchises	-	-	-	359,919	-	359,919
3	303200	Land & Land Rights SS	73,103	(8,455)	-	1,152,726	8,455	1,161,181
4	303300	Land & Land Rights P	178	(668)	-	52,376	668	53,044
5	303400	Land & Land Rights TD	-	-	-	624,652	-	624,652
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	1,302,214	(20,074)	(148,769)	6,657,852	(391,045)	6,266,807
8	304200	Struct & Imp P	334,261	(43,865)	(73,352)	4,529,553	(247,532)	4,282,021
9	304300	Struct & Imp WT	-	(39,917)	(970)	19,802	32,309	52,111
10	304400	Struct & Imp TD	243,003	-	(57,680)	3,548,438	(138,801)	3,409,637
11	304600	Struct & Imp Offices	-	-	(1,925)	94,810	(10,957)	83,853
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	762,038	(13,682)	(229,214)	9,563,623	(1,020,634)	8,542,989
15	310100	Power Generation Equip Other	64,932	(156,700)	-	824,162	156,700	980,862
16	311200	Pump Equip Electric	50,132	(1,147,936)	(882,391)	18,959,316	(4,209,636)	14,749,680
17	311300	Pump Equip Diesel	-	(17,748)	(1,274)	11,824	(7,092)	4,732
18	311500	Pump Equip Other	(457,841)	-	(62,496)	1,251,877	(154,892)	1,096,985
19	320100	WT Equip Non-Media	4,471,875	(70,010)	(129,924)	5,267,541	(174,784)	5,092,757
20	330000	Dist Reservoirs & Standpipe	10,085	(88,573)	(114,405)	6,771,999	(317,634)	6,454,365
21	331001	TD Mains Not Classified By Size	51,598	-	(86,900)	5,712,531	(326,894)	5,385,637
22	331100	TD Mains 4in & Less	9,848	(93,320)	(328,137)	21,362,124	(3,120,974)	18,241,150
23	331200	TD Mains 6in to 8in	6,816,687	-	(299,664)	23,601,871	(646,162)	22,955,709
24	331300	TD Mains 10in to 16in	5,327,755	-	(252,811)	20,448,275	(538,283)	19,909,992
25	331400	TD Mains 18in And Greater	8,924,321	-	(178,012)	11,909,255	(229,555)	11,679,700
26	332000	Fire Mains	-	-	-	-	-	-
27	333000	Services	913,989	-	(211,499)	8,977,162	(914,628)	8,062,534
28	334100	Meters	754,076	(100,544)	(96,325)	4,115,793	(374,696)	3,741,097
29	334200	Meter Installations	313,720	(1,327)	(33,469)	1,484,810	(62,966)	1,421,844
30	335000	Hydrants	977,157	-	(194,874)	10,260,857	(832,147)	9,428,710
31	339100	Other P/E Intangible	(115,264)	-	-	-	-	-
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	66,750	-	(1,371)	93,321	127,479	220,800
34	340200	Comp & Periph Equip	-	-	(3,129)	77,449	1,851	79,300
35	341100	Trans Equip Lt Duty Trks	7,334	(95,652)	(59,710)	202,641	(461,547)	(258,906)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	5,040	(120)	(274)	8,597	(1,488)	7,109
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	30,758	-	(96)	30,758	(96)	30,662
41	346100	Comm Equip Non-Telephone	156,062	-	(138,077)	1,439,596	(220,079)	1,219,517
42	346300	Comm Equip Other	83,696	-	(19,831)	441,635	(70,258)	371,377
42	TOTAL		\$ 31,177,307	\$ (1,898,591)	\$ (3,606,556)	\$ 169,858,374	\$ (14,145,319)	\$ 155,713,055
43	Company As Filed		31,177,307	(1,898,591)	(1,740,264)	169,839,793	(9,120,772)	160,719,021
44	Difference		\$ -	\$ -	\$ (1,866,292)	\$ 18,581	\$ (5,024,547)	\$ (5,005,966)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	-	\$ 1,229	\$ -	\$ 1,229
2	302000	Franchises	(37,922)	-	-	321,997	-	321,997
3	303200	Land & Land Rights SS	280,910	-	-	1,433,636	8,455	1,442,091
4	303300	Land & Land Rights P	(80,838)	-	-	(28,462)	668	(27,794)
5	303400	Land & Land Rights TD	-	-	-	624,652	-	624,652
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	2,362,307	-	(170,153)	9,020,159	(561,198)	8,458,961
8	304200	Struct & Imp P	310,343	(3,042)	(77,036)	4,836,854	(321,527)	4,515,328
9	304300	Struct & Imp WT	1,142,208	-	(7,002)	1,162,010	25,307	1,187,317
10	304400	Struct & Imp TD	2,513	-	(59,268)	3,550,951	(198,069)	3,352,882
11	304600	Struct & Imp Offices	78,475	-	(3,094)	173,285	(14,051)	159,234
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	2,310,727	-	(257,486)	11,874,350	(1,278,120)	10,596,230
15	310100	Power Generation Equip Other	4,763	(279)	-	828,646	156,979	985,625
16	311200	Pump Equip Electric	2,427,873	(187,316)	(874,157)	21,199,873	(4,896,477)	16,303,396
17	311300	Pump Equip Diesel	48	-	(523)	11,872	(7,614)	4,257
18	311500	Pump Equip Other	19,674	-	(55,439)	1,271,551	(210,331)	1,061,220
19	320100	WT Equip Non-Media	4,238,808	(2,974)	(251,008)	9,503,375	(422,818)	9,080,557
20	330000	Dist Reservoirs & Standpipe	2,975,586	-	(151,322)	9,747,585	(468,956)	9,278,628
21	331001	TD Mains Not Classified By Size	5,393	-	(87,477)	5,717,924	(414,371)	5,303,553
22	331100	TD Mains 4in & Less	10,543	(1,514)	(326,905)	21,371,153	(3,446,365)	17,924,788
23	331200	TD Mains 6in to 8in	7,727,608	-	(415,264)	31,329,479	(1,061,426)	30,268,053
24	331300	TD Mains 10in to 16in	6,836,139	-	(366,902)	27,284,414	(905,185)	26,379,229
25	331400	TD Mains 18in And Greater	1,855,145	-	(283,135)	13,774,400	(512,690)	13,261,711
26	332000	Fire Mains	89,876	-	-	89,876	-	89,876
27	333000	Services	2,298,266	(2,396)	(246,477)	11,273,032	(1,158,710)	10,114,323
28	334100	Meters	555,923	(4,886)	(109,768)	4,666,830	(479,578)	4,187,252
29	334200	Meter Installations	98,467	-	(39,714)	1,583,277	(102,679)	1,480,597
30	335000	Hydrants	1,532,553	-	(222,058)	11,793,410	(1,054,205)	10,739,205
31	339100	Other P/E Intangible	-	-	-	-	-	-
32	339500	Other P/E TD	-	-	-	-	-	-
33	340100	Office Furniture & Equip	1,845	(2,302)	(3,895)	92,864	125,886	218,750
34	340200	Comp & Periph Equip	1,215	(3,989)	(3,124)	74,675	2,716	77,390
35	341100	Trans Equip Lt Duty Trks	15	-	(50,664)	202,656	(512,211)	(309,555)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	-	-	-	-
38	343000	Tools, Shop, Garage Equip	10	-	(346)	8,607	(1,834)	6,773
39	344000	Laboratory Equipment	-	-	-	-	-	-
40	345000	Power Operated Equipment	(199)	-	(1,590)	30,559	(1,686)	28,873
41	346100	Comm Equip Non-Telephone	\$ 23,104	-	(146,881)	1,462,700	(366,960)	1,095,740
42	346300	Comm Equip Other	4,962	(56,011)	(21,675)	390,586	(35,922)	354,664
42	TOTAL		\$ 37,086,338	\$ (264,709)	\$ (4,232,362)	\$ 206,680,003	\$ (18,112,972)	\$ 188,567,031
43	Company As Filed		37,086,338	(264,709)	(4,044,853)	206,661,422	(18,829,191)	187,832,231
44	Difference		\$ -	\$ -	\$ (187,509)	\$ 18,581	\$ 716,219	\$ 734,800
						RUCO TY As Calculated	\$ 206,680,003	\$ (18,112,972)
						RUCO Adjustments	(18,581)	(716,219)
						Co. TY Adjustments To Book	4,483,732	(743,625)
						Co. Variance To GL	-	277,120
						Co. Variance To Sch. E	-	(737,737)
						Total	\$ 211,145,154	\$ (20,033,433)
						Co. As Filed	211,145,154	(20,033,433)
						Difference	\$ -	\$ -
						Adj. #1 - Difference In Computing	\$ -	\$ 718,594
						Adj. #3 - Conforming To Str DH 4.3	-	-
						Adj. #4 - Conforming To Str GB 9.4	18,581	(2,375)
						Total RUCO Adjustments	\$ 18,581	\$ 716,219
						RUCO As Adjusted	\$ 211,163,735	\$ (19,317,214)
						RUCO Adjustments	(18,581)	(716,219)
						Co. As Filed	\$ 211,145,154	\$ (20,033,433)
						Co. Adjustments	4,483,732	(1,204,242)
						Co. Computed	\$ 206,661,422	\$ (18,829,191)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 6, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 6, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 192,139	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	192,139	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 214,929	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	214,929	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 1,409,860	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	91,837	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (1,318,023)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (1,318,023)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 1,440,677	\$ (71,074)	\$ 1,369,603	12.00	\$ 16,435,242
2	Purchased Water	901,467	-	901,467	(30.88)	(27,837,301)
3	Fuel & Power	1,954,815	-	1,954,815	32.42	63,377,644
4	Chemicals	1,121,555	-	1,121,555	18.06	20,249,676
5	Management Fees	2,775,604	-	2,775,604	10.40	28,866,282
6	Group Insurance	396,645	-	396,645	(14.08)	(5,585,515)
7	Pensions	240,413	-	240,413	45.00	10,818,585
8	Insurance Other Than Group	158,153	-	158,153	(68.27)	(10,797,216)
9	Customer Accounting	370,806	-	370,806	19.76	7,326,317
10	Rents	63,217	-	63,217	(10.50)	(663,779)
11	Depreciation & Amortization	4,397,190	(4,397,190)	-	-	-
12	Other Operating Expenses	1,603,545	(68,591)	1,534,953	30.00	46,048,599
	Taxes:					
13	Taxes Other Than Income	128,923	-	128,923	15.07	1,943,464
14	Property Taxes	803,071	22,785	825,856	212.50	175,494,414
15	Income Tax	3,352,198	(1,734,232)	1,617,966	28.75	46,516,532
16	Interest Expense	-	1,952,967	1,952,967	106.52	208,030,062
17	Total Appropriate Operating Expenses	<u>\$ 19,708,280</u>	<u>\$ (4,295,335)</u>	<u>\$ 15,412,944</u>		<u>\$ 580,223,005</u>
18	Expense Lag	Line 17, Col. (E) / (C)	37.65			
19	Revenue Lag	Company Response To RUCO DR 8	39.82			
20	Net Lag	Line 18 - Line 17	2.17			
21	RUCO Adjusted Expenses	Col. (C), Line 16	<u>\$ 15,412,944</u>			
22	Cash Working Capital	Line 19 X Line 20 / 365 Days	<u>91,837</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	1,409,860			
24	Difference	Line 21 - Line 22	<u>\$ (1,318,023)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 23	<u>\$ (1,318,023)</u>			

Referer Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 17,913,497	\$ -	\$ 17,913,497	\$ 3,582,770	\$ 21,496,267
2	Unmetered Water Revenues	905,117	-	905,117	-	905,117
3	Other Water Revenues	-	-	-	-	-
4	TOTAL OPERATING REVENUE	<u>\$ 18,818,614</u>	<u>\$ -</u>	<u>\$ 18,818,614</u>	<u>\$ 3,582,770</u>	<u>\$ 22,401,384</u>
	Operating Expenses:					
5	Labor	\$ 1,440,677	\$ (71,074)	\$ 1,369,603	\$ -	\$ 1,369,603
6	Purchased Water	901,467	-	901,467	-	901,467
7	Fuel & Power	1,954,815	-	1,954,815	-	1,954,815
8	Chemicals	1,121,555	-	1,121,555	-	1,121,555
9	Waste Disposal	(870)	870	-	-	-
10	Management Fees	2,775,604	-	2,775,604	-	2,775,604
11	Group Insurance	396,645	-	396,645	-	396,645
12	Pensions	240,413	-	240,413	-	240,413
13	Regulatory Expense	64,012	-	64,012	-	64,012
14	Insurance Other Than Group	158,153	-	158,153	-	158,153
15	Customer Accounting	370,806	-	370,806	-	370,806
16	Rents	63,217	-	63,217	-	63,217
17	General Office Expense	161,107	-	161,107	-	161,107
18	Miscellaneous	787,967	(5,450)	782,517	-	782,517
19	Maintenance Expense	591,329	-	591,329	-	591,329
20	Depreciation & Amortization	4,397,190	(46,541)	4,350,649	-	4,350,649
21	General Taxes - Property Taxes	803,071	22,785	825,856	-	825,856
22	General Taxes - Other	128,923	-	128,923	-	128,923
23	Income Tax	(138,756)	373,813	235,057	1,382,909	1,617,966
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 16,217,325</u>	<u>\$ 274,405</u>	<u>\$ 16,491,730</u>	<u>\$ 1,382,909</u>	<u>\$ 17,874,639</u>
26	OPERATING INCOME (LOSS)	<u>\$ 2,601,289</u>	<u>\$ (274,405)</u>	<u>\$ 2,326,884</u>	<u>\$ 2,199,861</u>	<u>\$ 4,526,745</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATION & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 LABOR EXPENSE	(H) ADJMT NO. 7 MISC. EXPENSE	(K) ADJMT NO. 8 INCOME TAX	(I) RUCO AS ADJTD
1	Revenues:										
2	1 Metered Water Revenues	\$ 17,913,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,913,497
3	2 Unmetered Water Revenues	905,117	-	-	-	-	-	-	-	-	905,117
4	3 Other Water Revenues	-	-	-	-	-	-	-	-	-	-
5	4 TOTAL OPERATING REV.	<u>\$ 18,818,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,818,614</u>
6	Operating Expenses:										
7	5 Labor	\$ 1,440,677	\$ -	\$ -	\$ -	\$ -	\$ (33,409)	\$ (37,665)	\$ -	\$ -	\$ 1,369,603
8	6 Purchased Water	901,467	-	-	-	-	-	-	-	-	901,467
9	7 Fuel & Power	1,954,815	-	-	-	-	-	-	-	-	1,954,815
10	8 Chemicals	1,121,555	-	-	-	-	-	-	-	-	1,121,555
11	9 Waste Disposal (870)	(870)	-	-	-	870	-	-	-	-	-
12	10 Management Fees	2,775,604	-	-	-	-	-	-	-	-	2,775,604
13	11 Group Insurance	396,645	-	-	-	-	-	-	-	-	396,645
14	12 Pensions	240,413	-	-	-	-	-	-	-	-	240,413
15	13 Regulatory Expense	64,012	-	-	-	-	-	-	-	-	64,012
16	14 Insurance Other Than Group	158,153	-	-	-	-	-	-	-	-	158,153
17	15 Customer Accounting	370,806	-	-	-	-	-	-	-	-	370,806
18	16 Rents	63,217	-	-	-	-	-	-	-	-	63,217
19	17 General Office Expense	161,107	-	-	-	-	-	-	-	-	161,107
20	18 Miscellaneous	787,967	-	-	-	-	-	-	(5,450)	-	782,517
21	19 Maintenance Expense	591,329	-	-	-	-	-	-	-	-	591,329
22	20 Depreciation & Amortization	4,397,190	-	(46,541)	-	-	-	-	-	-	4,350,649
23	21 General Taxes - Property Taxes	803,071	22,785	-	-	-	-	-	-	-	825,856
24	22 General Taxes - Other	128,923	-	-	-	-	-	-	-	-	128,923
25	23 Income Tax	(138,756)	-	-	-	-	-	-	-	373,813	(138,756)
26	24 Rounding	-	-	-	-	-	-	-	-	-	-
27	25 TOTAL OPERATING EXP.	<u>\$ 16,217,325</u>	<u>\$ 22,785</u>	<u>\$ (46,541)</u>	<u>\$ -</u>	<u>\$ 870</u>	<u>\$ (33,409)</u>	<u>\$ (37,665)</u>	<u>\$ (5,450)</u>	<u>\$ 373,813</u>	<u>\$ 16,117,916</u>
28	26 OPERATING INC. (LOSS)	<u>\$ 2,601,289</u>									<u>\$ 2,700,698</u>

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Testimony, RLM
- 5 Testimony, RLM And Schedule RLM-11
- 6 Testimony, RLM
- 7 Testimony, RLM And Schedule RLM-12
- 8 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 18,818,614	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	18,818,614	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	22,401,384	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 60,038,612	
5	Average Annual Operating Revenues	Line 4 / 3	20,012,871	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 40,025,741
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,422,630	
8	10% Of CWIP	Line 7 X 10%		\$ 142,263
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 40,168,004
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 9,238,641	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	8.93915%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	8.93915%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 825,856
19	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1		803,071
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 22,785
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 22,785

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 1,229	0.00%	\$ -
2	302000	Franchises	321,997	0.00%	-
3	303200	Land & Land Rights SS	1,433,636	0.00%	-
4	303300	Land & Land Rights P	(28,462)	0.00%	-
5	303400	Land & Land Rights TD	624,652	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	9,020,159	2.50%	225,504
8	304200	Struct & Imp P	4,836,854	1.67%	80,775
9	304300	Struct & Imp WT	1,162,010	1.67%	19,406
10	304400	Struct & Imp TD	3,550,951	1.67%	59,301
11	304600	Struct & Imp Offices	173,285	2.03%	3,518
12	304800	Struct & Imp Misc	-	0.00%	-
13	305000	Collect & Impounding	-	0.00%	-
14	307000	Wells & Springs	11,874,350	2.52%	299,234
15	310100	Power Generation Equip Other	828,646	0.00%	-
16	311200	Pump Equip Electric	21,199,873	4.42%	937,034
17	311300	Pump Equip Diesel	11,872	4.42%	525
18	311500	Pump Equip Other	1,271,551	4.42%	56,203
19	320100	WT Equip Non-Media	9,503,375	4.00%	380,135
20	330000	Dist Reservoirs & Standpipe	9,747,585	1.67%	162,785
21	331001	TD Mains Not Classified By Size	5,717,924	1.53%	87,484
22	331100	TD Mains 4in & Less	21,371,153	1.53%	326,979
23	331200	TD Mains 6in to 8in	31,329,479	1.53%	479,341
24	331300	TD Mains 10in to 16in	27,284,414	1.53%	417,452
25	331400	TD Mains 18in And Greater	13,774,400	2.34%	322,321
26	332000	Fire Mains	89,876	1.53%	1,375
27	333000	Services	11,273,032	2.48%	279,571
28	334100	Meters	4,666,830	2.51%	117,137
29	334200	Meter Installations	1,583,277	2.51%	39,740
30	335000	Hydrants	11,793,410	2.00%	235,868
31	339100	Other P/E Intangible	-	0.00%	-
32	339500	Other P/E TD	-	0.00%	-
33	340100	Office Furniture & Equip	92,864	4.04%	3,752
34	340200	Comp & Periph Equip	74,675	4.04%	3,017
35	341100	Trans Equip Lt Duty Trks	202,656	25.00%	50,664
36	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
37	342000	Stores Equipment	-	3.92%	-
38	343000	Tools,Shop,Garage Equip	8,607	4.02%	346
39	344000	Laboratory Equipment	-	3.71%	-
40	345000	Power Operated Equipment	30,559	5.20%	1,589
41	346100	Comm Equip Non-Telephone	1,462,700	10.30%	150,658
42	346300	Comm Equip Other	390,586	4.93%	19,256
43	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 206,680,003		\$ 4,760,969
44	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			186,438
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			4,947,406
45		POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			55,722
46		DEPRECIATION ON ACQUISITION ADJUSTMENT			230,973
47		AMORTIZATION OF REGULATORY ASSETS			2,918
48		AMORTIZATION OF CONTRIBUTIONS			(689,025)
49		AMORTIZATION OF REGULATORY CIAC			(197,344)
50		Rounding			(1)
51	TOTAL DEPRECIATION EXPENSE				\$ 4,350,649
52	Company As Filed				4,397,190
53	Difference				\$ (46,541)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (46,541)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	31.3783%		45.2631%
3	Agua Fria Water District (Line 1 X Line 2)	\$ 192,035	\$ -	\$ 192,035
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 64,012
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 64,012
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ -
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ -

NOTE

	4-Factor Allocation		Company As Filed		RUCO As Adjusted
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasu Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	23.0946%
3	Agua Fria Water District	Lines 1 X 2	<u>\$ 111,362</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (33,409)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (33,409)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		RUCO ADJUSTMENTS			RUCO AS ADJUSTED
		ALLOCABLE TOTAL	ALLOC'N 4-FACTOR	DISTRICT TOTAL	
1	Agua Fria Water Direct Miscellaneous Account (RLM-12, Pg, Ln 118)	\$ (2,307.02)	100.00%	\$ (2,307)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	23.0946%	\$ (3,143)	
3	TOTAL				<u>\$ (5,450)</u>
4	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-7, Column (H))				<u>\$ (5,450)</u>

NOTE

4-Factor Allocation

5	Sun City West Water District	8.3198%
6	Paradise Valley Water District	7.6863%
7	Tubac Water District	0.7254%
8	Agua Fria Water District	23.0946%
9	Havasui Water District	1.3850%
10	Mohave Water District	7.8288%
11	Mohave Wastewater District	1.0290%

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 - CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
		\$			
1	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	JAMES ISHMAEL	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	ANGEL STEVENS	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	NON-Catered Food & Beverages
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	In-house training/seminars
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	Catering/works catering
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	In-house training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	SERVICES	Landscaping
67	PCard Undistributed	10.02	QUIZNOS	ANDREW C MARTINEZ	NON-Catered Food & Beverages
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEMAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEMAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEMAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEMAY STORE	ROY PEREZ JR	Catering/works catering
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	NON-Catered Food & Beverages
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	Event organization services
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415R1	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	Tharpe Company Inc-REMIT	NANCY J HUCKEBY	Land
94	Overnight Shipping AG	35.93	TLF CACTUS FLOWER FLOR	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		<u>\$ 13,607.91</u>			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Cleanwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Cleanwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. MDC-6, Column (C), L26 + L23	\$ 2,561,942
	LESS:		
2	Arizona State Tax	Line 11	42,433
3	Interest Expense	Note (A) Line 20	1,952,967
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 566,541
5	Federal Tax Rate	Sch. MDC-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 192,624
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 2,561,942
	LESS:		
8	Interest Expense	Note (A) Line 20	1,952,967
9	State Taxable Income	Line 7 - Line 8	\$ 608,975
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 42,433
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 192,624
13	State Income Tax Expense	Line 11	42,433
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 235,057
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(138,756)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 373,813
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 373,813

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 64,667,787
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,952,967

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u>7.00%</u>

References:

Columns (A) Thru (F): Testimony, WAR

HAVASU WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

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RLM-12		OPERATING INCOME ADJUSTMENT NO. 7 - REMOVE INAPPROPRIATE/UNNECESSARY MISC. EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 4,221,474	\$ 4,012,421
2	Adjusted Operating Income (Loss)	\$ (131,419)	\$ (140,194)
3	Current Rate Of Return (L2 / L1)	-3.11%	-3.49%
4	Required Operating Income (L5 X L1)	\$ 354,604	\$ 280,715
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 486,023	\$ 420,910
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6785	1.5686
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 815,803	\$ 660,219
9	Adjusted Test Year Revenue	\$ 1,026,587	\$ 1,026,587
10	Proposed Annual Revenue (L8 + L9)	\$ 1,842,390	\$ 1,686,806
11	Required Percentage Increase In Revenue (L8 / L9)	79.47%	64.31%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-14

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3625			
3	Subtotal (L1 - L2)	0.6375			
4	Revenue Conversion Factor (L1 / L3)	1.5686			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	31.4720%			
9	Effective Federal Income Tax Rate (L7 X L8)	29.2790%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	36.2470%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 280,715			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	(140,194)			
13	Required Increase In Operating Income (L11 - L12)		\$ 420,910		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 86,691			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(159,839)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 246,530		
17	Total Required Increase In Revenue (L13 + L16)		\$ 667,439		
				RUCO	
CALCULATION OF INCOME TAX				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 1,686,806	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			1,326,620	
20	Synchronized Interest (Col. (C), L37)			121,020	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 239,166	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 16,665
24	Fed. Taxable Income (L21 - L23)			\$ 222,501	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			47,775	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 70,025
31	Combined Federal And State Income Tax (L23 + L30)				\$ 86,691
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (159,839)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 246,530
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				31.47%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 4,012,421	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 121,020	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJTED OCRB/FVRB	
1	Gross Utility Plant In Service	\$ 9,837,304	\$ -	\$ 9,837,304	
2	Accumulated Depreciation	\$ (1,327,687)	4,659	\$ (1,323,028)	
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 8,509,617	\$ 4,659	\$ 8,514,276	
4	Advances In Aid Of Const.	\$ (3,217,334)	\$ -	\$ (3,217,334)	
5	Contribution In Aid Of Const.	\$ (1,355,090)	\$ (10,645)	\$ (1,365,735)	
6	Accumulated Amortization Of CIAC	\$ -	-	\$ -	
7	NET CIAC (L6 + L7)	\$ (1,355,090)	\$ (10,645)	\$ (1,365,735)	
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	
9	Imputed Regulatory Contributions	\$ (113,427)	\$ -	\$ (113,427)	
10	Customer Meter Deposits	\$ (512)	\$ -	\$ (512)	\$ -
11	Deferred Income Taxes And Credits	\$ 131,385	\$ -	\$ 131,385	
12	Investment Tax Credits	\$ -	\$ -	\$ -	
13	Deferred Debits	\$ 155,374	\$ (145,701)	\$ 9,673	
14	Allowance For Working Capital	\$ 111,462	\$ (57,366)	\$ 54,096	
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	
16	Rounding	\$ (1)	\$ -	\$ (1)	
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	\$ 4,221,474	\$ (209,053)	\$ 4,012,421	\$ (209,053)

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCRB/FV/RB
1	Gross Utility Plant In Service	\$ 9,837,304	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,837,304
2	Accumulated Depreciation	(1,327,687)	4,659	-	-	-	-	-	(1,323,028)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 8,509,617	\$ 4,659	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,514,276
4	Advances In Aid Of Const.	\$ (3,217,334)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,217,334)
5	Contribution In Aid Of Const.	\$ (1,355,090)	\$ -	\$ (10,645)	\$ -	\$ -	\$ -	\$ -	\$ (1,365,735)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	-	-	-
7	NET CIAC (L5 + L6)	\$ (1,355,090)	\$ -	\$ (10,645)	\$ -	\$ -	\$ -	\$ -	\$ (1,365,735)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (113,427)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (113,427)
10	Customer Meter Deposits	\$ (512)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (512)
11	Deferred Income Taxes And Credits	\$ 131,385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,385
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 155,374	\$ -	\$ -	\$ -	\$ -	\$ (145,701)	\$ -	\$ 9,673
14	Allowance For Working Capital	\$ 111,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (57,366)	\$ 54,096
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	(1)	-	-	-	-	-	-	(1)
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 4,221,474	\$ 4,659	\$ (10,645)	\$ -	\$ -	\$ (145,701)	\$ (57,366)	\$ 4,012,421

References:

Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Intentionally Left Blank
Column (E): Adjustment No. 4 - Intentionally Left Blank
Column (F): Adjustment No. 5 - Recalculate Deferred Regulatory Assets
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2001

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 67093 - ADJUSTED	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	RUCO ADJUSTED PRIOR TEST YEAR	GROSS PLANT	ACCUMULATED DEPRECIATION
			DEP. RATE				ACC. DEP. ADJUSTMENT		
1	301000	Organization	0.00%	\$ 10,144	\$ -	\$ -	\$ -	\$ 10,144	\$ -
2	302000	Franchises	0.00%	-	-	-	-	-	-
3	303200	Land & Land Rights SS	0.00%	10,545	-	-	-	10,545	-
4	303300	Land & Land Rights P	0.00%	-	-	-	-	-	-
5	303500	Land & Land Rights TD	0.00%	-	-	-	-	-	-
6	303600	Land & Land Rights AG	0.00%	-	-	-	-	-	-
7	304100	Struct & Imp SS	2.79%	25,577	(8,782)	-	-	25,577	(8,782)
8	304200	Struct & Imp P	0.00%	-	-	-	-	-	-
9	304300	Struct & Imp WT	0.00%	-	-	-	-	-	-
10	304400	Struct & Imp TD	0.00%	-	-	-	-	-	-
11	304500	Struct & Imp Offices	2.03%	19	(1)	-	-	19	(1)
12	304800	Struct & Imp Misc	0.00%	-	-	-	-	-	-
13	305000	Collect & Impounding	2.54%	148,253	(19,259)	-	-	148,253	(19,259)
14	306000	Lakes, Rivers, Other Intakes	0.00%	-	-	-	-	-	-
15	307000	Wells & Springs	2.54%	107,017	(75,605)	-	-	107,017	(75,605)
16	310100	Power Generation Equip Other	5.12%	22,738	(10,719)	-	-	22,738	(10,719)
17	311200	Pump Equip Electric	3.71%	254,974	(45,084)	-	-	254,974	(45,084)
18	311300	Pump Equip Diesel	0.00%	-	-	-	-	-	-
19	311500	Pump Equip Other	0.00%	-	-	-	-	-	-
20	320100	WT Equip Non-Media	12.00%	25,315	(24,643)	-	-	25,315	(24,643)
21	330000	Dist Reservoirs & Standpipe	2.33%	151,085	(55,856)	-	-	151,085	(55,856)
22	331001	TD Mains Not Classified by Size	2.13%	-	-	-	-	-	-
23	331100	TD Mains 4in & Less	2.13%	721,812	(171,902)	-	-	721,812	(171,902)
24	331200	TD Mains 6in to 8in	2.13%	-	-	-	-	-	-
25	331300	TD Mains 10in to 16in	2.13%	-	-	-	-	-	-
26	333000	Services	2.89%	182,275	(27,743)	-	-	182,275	(27,743)
27	334100	Meters	3.52%	176,386	(42,384)	-	-	176,386	(42,384)
28	334200	Meter Installations	3.52%	-	-	-	-	-	-
29	335000	Hydrants	0.00%	-	-	-	-	-	-
30	339100	Other P/E Intangible	0.00%	-	-	-	-	-	-
31	3392500	Other P/E SS	0.00%	-	-	-	-	-	-
32	340100	Office Furniture & Equip	4.10%	3,254	(201)	-	-	3,254	(201)
33	340200	Comp & Periph Equip	4.10%	10,967	(1,654)	-	-	10,967	(1,654)
34	341100	Trans Equip Lt Duty Trks	25.00%	84,886	(15,908)	-	-	84,886	(15,908)
35	341200	Trans Equip Hvy Duty Trks	25.00%	-	-	-	-	-	-
36	342000	Stores Equipment	3.93%	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	7.55%	11,841	(5,717)	-	-	11,841	(5,717)
38	344000	Laboratory Equipment	3.06%	-	-	-	-	-	-
39	345000	Power Operated Equipment	9.23%	33,093	(6,238)	-	-	33,093	(6,238)
40	346100	Comm Equip Non-Telephone	4.10%	9,217	(3,988)	-	-	9,217	(3,988)
41	346300	Comm Equip Other	6.19%	580	75	-	-	580	75
42	TOTAL			\$ 1,989,978	\$ (515,609)	\$ -	\$ -	\$ 1,989,978	\$ (515,609)
43	Per Company Work Papers			\$ 1,989,979	\$ (515,609)	\$ -	\$ -	\$ 1,989,978	\$ (515,609)
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.			\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -

References:

Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	10,545	-	10,545
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(714)	25,577	(9,496)	16,081
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(0)	19	(1)	18
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(23,025)	125,228
14	306000	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(2,718)	107,017	(78,323)	28,694
16	310100	Power Generation Equip Other	-	-	(1,164)	22,738	(11,883)	10,855
17	311200	Pump Equip Electric	6,101	(1,444)	(9,467)	259,631	(53,107)	206,524
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(3,038)	25,315	(27,681)	(2,366)
21	330000	Dist Reservoirs & Standpipe	74,786	-	(3,593)	225,871	(59,449)	166,422
22	331001	TD Mains Not Classified by Size	(11,995)	-	163	(11,995)	163	(11,832)
23	331100	TD Mains 4in & Less	45,748	-	(15,415)	767,560	(187,317)	580,243
24	331200	TD Mains 6in to 8in	356,449	-	(316)	356,449	(316)	356,133
25	331300	TD Mains 10in to 16in	169,080	-	(150)	169,080	(150)	168,930
26	333000	Services	1,548	-	(5,270)	183,823	(33,013)	150,810
27	334100	Meters	1,308	-	(6,211)	177,694	(48,595)	129,099
28	334200	Meter Installations	5,547	-	(12)	5,547	(12)	5,535
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(334)	2,920
33	340200	Comp & Periph Equip	5,898	-	(460)	16,865	(2,114)	14,752
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(37,130)	47,756
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	-	-	(894)	11,841	(6,611)	5,230
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(9,292)	23,801
40	346100	Comm Equip Non-Telephone	2,565	-	(382)	11,782	(4,370)	7,411
41	346300	Comm Equip Other	-	-	(36)	580	39	619
42	TOTAL		\$ 657,035	\$ (1,444)	\$ (77,851)	\$ 2,645,569	\$ (592,016)	\$ 2,053,553
43	Per Company Work Papers		657,035	(1,444)	(74,609)	2,645,570	(590,218)	2,055,352
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		\$ (0)	\$ 0	\$ 3,242	\$ (1)	\$ 1,798	\$ (1,799)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	36,798	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(714)	25,577	(10,209)	15,368
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp VWT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(0)	19	(2)	17
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(26,790)	121,463
14	306000	Lakes, Rivers, Other Intakes	82,582	-	-	82,582	-	82,582
15	307000	Wells & Springs	367,197	-	(9,320)	474,214	(87,643)	386,571
16	310100	Power Generation Equip Other	50,355	-	(2,990)	73,093	(14,874)	58,219
17	311200	Pump Equip Electric	66,826	-	(11,082)	326,457	(64,189)	262,268
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(3,038)	25,315	(30,719)	(5,404)
21	330000	Dist Reservoirs & Standpipe	356,772	-	(10,724)	582,643	(70,173)	512,470
22	331001	TD Mains Not Classified by Size	-	-	256	(11,995)	419	(11,576)
23	331100	TD Mains 4in & Less	182,727	-	(16,511)	950,287	(203,828)	746,459
24	331200	TD Mains 6in to 8in	212,869	-	(10,282)	569,318	(10,599)	558,719
25	331300	TD Mains 10in to 16in	-	-	(3,601)	169,080	(3,751)	165,329
26	333000	Services	3,400	-	(5,321)	187,222	(38,334)	148,888
27	334100	Meters	677	-	(6,257)	178,371	(54,852)	123,519
28	334200	Meter Installations	3,636	-	(226)	9,183	(238)	8,944
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(468)	2,786
33	340200	Comp & Periph Equip	3,247	-	(771)	20,112	(2,885)	17,227
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(58,351)	26,535
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	-	-	(894)	11,841	(7,505)	4,336
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(12,347)	20,746
40	346100	Comm Equip Non-Telephone	-	-	(483)	11,782	(4,853)	6,928
41	346300	Comm Equip Other	-	-	(36)	580	3	583
42	TOTAL		\$ 1,367,085	\$ -	\$ (110,172)	\$ 4,012,655	\$ (702,188)	\$ 3,310,466
43	Per Company Work Papers		1,367,085	-	(108,892)	4,012,655	(699,110)	3,313,545
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		\$ (0)	\$ -	\$ 1,280	\$ 0	\$ 3,078	\$ (3,078)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	60,441	-	(787)	86,018	(10,996)	75,022
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(0)	19	(2)	17
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(30,556)	117,697
14	306000	Lakes, Rivers, Other Intakes	(41,330)	-	-	41,252	-	41,252
15	307000	Wells & Springs	142,131	-	(12,204)	616,345	(99,847)	516,499
16	310100	Power Generation Equip Other	(24,279)	-	(3,691)	48,814	(18,564)	30,250
17	311200	Pump Equip Electric	279,394	-	(12,623)	605,852	(76,812)	529,040
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(3,038)	25,315	(33,756)	(8,441)
21	330000	Dist Reservoirs & Standpipe	158,873	-	(13,730)	741,517	(83,903)	657,614
22	331001	TD Mains Not Classified by Size	8,324	-	159	(3,671)	578	(3,093)
23	331100	TD Mains 4in & Less	196,249	-	(20,620)	1,146,536	(224,449)	922,087
24	331200	TD Mains 6in to 8in	(85,158)	(8,324)	(12,085)	475,836	(14,359)	461,476
25	331300	TD Mains 10in to 16in	51,771	-	(3,902)	220,851	(7,653)	213,198
26	333000	Services	(13,824)	-	(5,391)	173,398	(43,725)	129,673
27	334100	Meters	832	(326)	(6,272)	178,877	(60,798)	118,079
28	334200	Meter Installations	1,822	-	(340)	11,004	(579)	10,426
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(601)	2,653
33	340200	Comp & Periph Equip	-	-	(825)	20,112	(3,709)	16,403
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(79,573)	5,313
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	-	-	(894)	11,841	(8,399)	3,442
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(15,401)	17,692
40	346100	Comm Equip Non-Telephone	-	-	(483)	11,782	(5,336)	6,445
41	346300	Comm Equip Other	-	-	(36)	580	(33)	547
42	TOTAL		\$ 735,246	\$ (8,650)	\$ (124,936)	\$ 4,739,251	\$ (818,474)	\$ 3,920,777
43	Per Company Work Papers		735,246	(8,650)	(123,568)	4,739,252	(822,678)	3,916,574
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		\$ (0)	\$ (0)	\$ 1,368	\$ 1	\$ (4,204)	\$ 4,203

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(2,400)	86,018	(13,396)	72,622
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(0)	19	(3)	16
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(34,322)	113,931
14	306000	Lakes, Rivers, Other Intakes	-	-	-	41,252	-	41,252
15	307000	Wells & Springs	-	-	(15,655)	616,345	(115,502)	500,843
16	310100	Power Generation Equip Other	-	-	(2,499)	48,814	(21,063)	27,750
17	311200	Pump Equip Electric	(10,589)	-	(22,330)	595,262	(99,142)	496,121
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	(86,183)	-	4,287	(60,868)	(29,469)	(90,337)
21	330000	Dist Reservoirs & Standpipe	10,589	-	(17,370)	752,106	(101,273)	650,833
22	331001	TD Mains Not Classified by Size	(8,720)	-	117	(12,391)	695	(11,696)
23	331100	TD Mains 4in & Less	7,605	-	(24,428)	1,154,142	(248,677)	905,265
24	331200	TD Mains 6in to 8in	70,533	-	(10,568)	546,369	(24,927)	521,441
25	331300	TD Mains 10in to 16in	336,154	-	(5,002)	557,006	(12,656)	544,350
26	333000	Services	2,416	-	(5,046)	175,814	(48,771)	127,043
27	334100	Meters	2,126	(2,964)	(6,261)	178,039	(64,095)	113,944
28	334200	Meter Installations	5,573	-	(431)	16,577	(1,010)	15,568
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(735)	2,519
33	340200	Comp & Periph Equip	-	(8,376)	(724)	11,736	3,943	15,678
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(100,794)	(15,908)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	460	-	(895)	12,301	(9,294)	3,007
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(18,456)	14,637
40	346100	Comm Equip Non-Telephone	-	-	(483)	11,782	(5,819)	5,962
41	346300	Comm Equip Other	-	-	(36)	580	(69)	511
42	TOTAL		\$ 329,965	\$ (11,341)	\$ (137,901)	\$ 5,057,875	\$ (945,034)	\$ 4,112,841
43	Per Company Work Papers		329,965	(11,340)	(125,686)	5,057,876	(948,364)	4,109,512
44	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		\$ -	\$ 1	\$ 12,215	\$ 1	\$ (3,329)	\$ 3,329

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 4, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 4, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDTS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	3,410,895	-	(29,002)	3,496,913	(42,398)	3,454,515
8	304200	Struct & Imp P	-	-	-	-	-	-
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	20,637	-	(18)	20,656	(20)	20,636
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(38,087)	110,166
14	306000	Lakes, Rivers, Other Intakes	3,768	-	-	45,020	-	45,020
15	307000	Wells & Springs	27,773	-	(15,920)	644,119	(131,422)	512,697
16	310100	Power Generation Equip Other	2,117	-	(2,540)	50,931	(23,603)	27,327
17	311200	Pump Equip Electric	111,965	-	(23,652)	707,228	(122,794)	584,434
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	8,720	-	6,476	(52,148)	(22,993)	(75,142)
21	330000	Dist Reservoirs & Standpipe	110,799	-	(18,492)	862,905	(119,765)	743,139
22	331001	TD Mains Not Classified by Size	49,123	-	(129)	36,732	567	37,299
23	331100	TD Mains 4in & Less	-	-	(24,583)	1,154,142	(273,460)	880,682
24	331200	TD Mains 6in to 8in	24,904	-	(11,837)	571,273	(36,764)	534,509
25	331300	TD Mains 10in to 16in	-	-	(11,864)	557,006	(24,520)	532,486
26	333000	Services	1,783	-	(5,106)	177,597	(53,877)	123,720
27	334100	Meters	-	(1,606)	(6,232)	176,433	(68,721)	107,712
28	334200	Meter Installations	(267)	(706)	(563)	15,604	(867)	14,737
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(133)	3,254	(868)	2,386
33	340200	Comp & Periph Equip	-	-	(481)	11,736	3,461	15,197
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(122,016)	(37,130)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	-	-	(929)	12,301	(10,223)	2,078
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(21,510)	11,583
40	346100	Comm Equip Non-Telephone	-	-	(483)	11,782	(6,302)	5,479
41	346300	Comm Equip Other	63,001	-	(1,149)	63,581	(1,217)	62,363
42	TOTAL		\$ 3,835,219	\$ (2,312)	\$ (174,680)	\$ 8,890,783	\$ (1,117,402)	\$ 7,773,380
43	Per Company Work Papers		3,835,219	(2,312)	(174,261)	8,890,783	(1,122,625)	7,768,158
44	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		\$ 0	\$ (0)	\$ 418	\$ 0	\$ (5,223)	\$ 5,222

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 10,144	\$ -	\$ 10,144
2	302000	Franchises	-	-	-	-	-	-
3	303200	Land & Land Rights SS	-	-	-	47,343	-	47,343
4	303300	Land & Land Rights P	-	-	-	-	-	-
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	(1,399,617)	-	(53,761)	2,097,296	(96,159)	2,001,137
8	304200	Struct & Imp P	99,968	-	-	99,968	-	99,968
9	304300	Struct & Imp WT	-	-	-	-	-	-
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	42	-	(420)	20,697	(441)	20,257
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	(3,766)	148,253	(41,853)	106,400
14	306000	Lakes, Rivers, Other Intakes	71,025	-	-	116,045	-	116,045
15	307000	Wells & Springs	54	-	(16,362)	644,172	(147,784)	496,389
16	310100	Power Generation Equip Other	4	-	(2,608)	50,935	(26,211)	24,724
17	311200	Pump Equip Electric	645,971	-	(29,231)	1,353,198	(152,025)	1,201,173
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	4,202	-	-	4,202	-	4,202
20	320100	WT Equip Non-Media	311,090	-	1,553	258,942	(21,441)	237,501
21	330000	Dist Reservoirs & Standpipe	493,107	-	(21,542)	1,356,012	(141,308)	1,214,704
22	331001	TD Mains Not Classified by Size	9	-	(783)	36,742	(216)	36,526
23	331100	TD Mains 4in & Less	10,445	-	(24,704)	1,164,587	(298,164)	866,423
24	331200	TD Mains 6in to 8in	387,791	-	(13,212)	959,064	(49,976)	909,087
25	331300	TD Mains 10in to 16in	173,660	-	(12,327)	730,665	(36,847)	693,819
26	333000	Services	101,319	-	(5,566)	278,916	(59,443)	219,472
27	334100	Meters	1,407	(2,254)	(6,206)	175,586	(72,673)	102,913
28	334200	Meter Installations	1,649	-	(600)	17,253	(1,467)	15,786
29	335000	Hydrants	-	-	-	-	-	-
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	563	(563)	(155)	3,254	(460)	2,794
33	340200	Comp & Periph Equip	-	(2,591)	(477)	9,145	5,576	14,720
34	341100	Trans Equip Lt Duty Trks	-	-	(21,222)	84,886	(143,237)	(58,351)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	-	-
37	343000	Tools, Shop, Garage Equip	5,980	-	(1,023)	18,281	(11,246)	7,035
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	(3,054)	33,093	(24,565)	8,528
40	346100	Comm Equip Non-Telephone	4,550	(4,629)	(654)	11,702	(2,327)	9,375
41	346300	Comm Equip Other	(19,167)	-	(2,137)	44,414	(3,355)	41,059
42	TOTAL		\$ 894,050	\$ (10,037)	\$ (218,257)	\$ 9,774,795	\$ (1,325,622)	\$ 8,449,174
43	Per Company Work Papers		894,050	(10,037)	(207,656)	9,774,796	(1,330,281)	8,444,515
44	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		\$ -	\$ -	\$ 10,601	\$ 1	\$ (4,659)	\$ 4,658
						RUCO TY As Calculated	9,774,795	(1,325,622)
						Company TY As Calculated	9,774,796	(1,330,281)
						RUCO Adjustments to Increase (Decrease) GUPIS & Accum. Depr.	-	(4,659)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 6, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 6, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

Arizona-American Water Company
Docket Nos. SW & W-01303A-08-0227
Test Year Ended December 31, 2007

Havasu Water District
Schedule RLM-5
Page 1 of 2

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 4,486	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	4,486	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 4,556	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	4,556	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 102,420	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	45,054	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (57,366)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (57,366)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 204,741	\$ -	\$ 204,741	12.00	\$ 2,456,892
2	Purchased Water	-	-	-	494.00	-
3	Fuel & Power	111,139	-	111,139	32.42	3,603,271
4	Chemicals	88,249	-	88,249	18.06	1,593,336
5	Waste Disposal	-	52	52	-	-
6	Management Fees	166,461	(2,004)	164,457	10.40	1,710,358
7	Group Insurance	63,729	-	63,729	(14.08)	(897,425)
8	Pensions	35,586	-	35,586	45.00	1,601,370
9	Insurance Other Than Group	8,974	-	8,974	(68.27)	(612,661)
10	Customer Accounting	22,062	-	22,062	19.76	435,897
11	Rents	5,059	-	5,059	(10.50)	(53,120)
12	Depreciation & Amorization	291,351	1,504	292,855	-	-
13	Other Operating Expenses	258,745	(3,976)	254,769	30.00	7,643,065
	Taxes:					
14	Taxes Other Than Income	17,638	-	17,638	15.07	265,886
15	Property Taxes	44,112	9,411	53,523	212.50	11,373,540
16	Income Tax	147,572	(60,881)	86,691	28.75	2,492,354
17	Interest Expense	-	121,020	121,020	106.52	12,890,778
18	Total Appropriate Operating Expenses	<u>\$ 1,465,418</u>	<u>\$ 65,125</u>	<u>\$ 1,530,543</u>		<u>\$ 44,503,541</u>
19	Expense Lag	Line 18, Col. (E) / (C)	29.08			
20	Revenue Lag		<u>39.82</u>			
21	Net Lag	Line 20 - Line 19	10.74			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 1,530,543</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>45,054</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	102,420			
25	Difference	Line 23 - Line 24	<u>\$ (57,366)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (57,366)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 1,003,476	\$ -	\$ 1,003,476	\$ 660,219	\$ 1,663,696
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	23,110	-	23,110	-	23,110
4	TOTAL OPERATING REVENUE	<u>\$ 1,026,587</u>	<u>\$ -</u>	<u>\$ 1,026,587</u>	<u>\$ 660,219</u>	<u>\$ 1,686,806</u>
	Operating Expenses:					
5	Labor	\$ 204,741	\$ -	\$ 204,741	\$ -	\$ 204,741
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	111,139	-	111,139	-	111,139
8	Chemicals	88,249	-	88,249	-	88,249
9	Waste Disposal	(52)	52	-	-	-
10	Management Fees	166,461	(2,004)	164,457	-	164,457
11	Group Insurance	63,729	-	63,729	-	63,729
12	Pensions	35,586	-	35,586	-	35,586
13	Regulatory Expense	3,840	(0)	3,840	-	3,840
14	Insurance Other Than Group	8,974	-	8,974	-	8,974
15	Customer Accounting	22,062	-	22,062	-	22,062
16	Rents	5,059	-	5,059	-	5,059
17	General Office Expense	13,616	-	13,616	-	13,616
18	Miscellaneous	42,644	(188)	42,456	-	42,456
19	Maintenance Expense	198,697	-	198,697	-	198,697
20	Depreciation & Amortization	291,351	1,504	292,855	-	292,855
21	General Taxes - Property Taxes	44,112	9,411	53,523	-	53,523
22	General Taxes - Other	17,638	-	17,638	-	17,638
23	Income Tax	(159,839)	-	(159,839)	246,530	86,691
24	Rounding	(2)	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 1,158,005</u>	<u>\$ 8,774</u>	<u>\$ 1,166,781</u>	<u>\$ 246,530</u>	<u>\$ 1,413,310</u>
26	OPERATING INCOME (LOSS)	<u>\$ (131,419)</u>	<u>\$ (8,774)</u>	<u>\$ (140,194)</u>	<u>\$ 413,690</u>	<u>\$ 273,496</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 LABOR EXPENSE	(H) ADJMT NO. 7 MISC. EXPENSES	(I) ADJMT NO. 8 INCOME TAX	(J) RUCO AS ADJTD
1	Revenues:										
2	Metered Water Revenues	\$ 1,003,476	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,003,476
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	23,110	-	-	-	-	-	-	-	-	23,110
	TOTAL OPERATING REV.	\$ 1,026,587	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,026,587
5	Operating Expenses:										
6	Labor	\$ 204,741	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 204,741
7	Purchased Water	-	-	-	-	-	-	-	-	-	-
8	Fuel & Power	111,139	-	-	-	-	-	-	-	-	111,139
9	Chemicals	88,249	-	-	-	-	-	-	-	-	88,249
10	Waste Disposal	(52)	-	-	-	52	-	-	-	-	-
11	Management Fees	166,461	-	-	-	-	(2,004)	-	-	-	164,457
12	Group Insurance	63,729	-	-	-	-	-	-	-	-	63,729
13	Pensions	35,586	-	-	-	-	-	-	-	-	35,586
14	Regulatory Expense	3,840	-	-	(0)	-	-	-	-	-	3,840
15	Insurance Other Than Group	8,974	-	-	-	-	-	-	-	-	8,974
16	Customer Accounting	22,062	-	-	-	-	-	-	-	-	22,062
17	Rents	5,059	-	-	-	-	-	-	-	-	5,059
18	General Office Expense	13,616	-	-	-	-	-	-	-	-	13,616
19	Miscellaneous	42,644	-	-	-	-	-	-	(188)	-	42,456
20	Maintenance Expense	198,697	-	-	-	-	-	-	-	-	198,697
21	Depreciation & Amortization	291,351	-	1,504	-	-	-	-	-	-	292,855
22	General Taxes - Property Taxes	44,112	9,411	-	-	-	-	-	-	-	53,523
23	General Taxes - Other	17,638	-	-	-	-	-	-	-	-	17,638
24	Income Tax	(159,839)	-	-	-	-	-	-	-	7,220	(159,839)
25	Rounding	(2)	-	-	-	-	-	-	-	-	-
	TOTAL OPERATING EXP.	\$ 1,158,005	\$ 9,411	\$ 1,504	\$ (0)	\$ 52	\$ (2,004)	\$ -	\$ (188)	\$ 7,220	\$ 1,166,781
26	OPERATING INC. (LOSS)	\$ (131,419)									\$ (140,194)

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Intentionally Left Blank
- 5 Annual Incentive Pay Program Expense
- 6 Intentionally Left Blank
- 7 Miscellaneous Expense
- 8 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Paradise Valley Adjustment To Chemical Expense
- 5 Testimony, RLM And Schedule RLM-11
- 6 Agua Fria, Mohave & Sun City West Adjustment To Labor Expense
- 7 Testimony, RLM And Schedule RLM-12, Pages 1 - 5
- 8 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 1,026,587	
2	Adjusted Test Year Revenue	Schedule RLM-7	1,026,587	
3	RUCO Proposed Revenue	Schedule RLM-6	1,686,806	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 3,739,979	
5	Average Annual Operating Revenues	Line 4 / 3	1,246,660	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 2,493,319
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 100,797	
8	10% Of CWIP	Line 7 X 10%		\$ 10,080
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 2,503,399
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 575,782	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	9.30%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.30%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 53,523
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		44,112
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 9,411
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 9,411

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 10,144	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	303200	Land & Land Rights SS	47,343	0.00%	-
4	303300	Land & Land Rights P	-	0.00%	-
5	303500	Land & Land Rights TD	-	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	2,097,296	2.79%	58,515
8	304200	Struct & Imp P	99,968	0.00%	-
9	304300	Struct & Imp WT	-	0.00%	-
10	304400	Struct & Imp TD	-	0.00%	-
11	304600	Struct & Imp Offices	20,697	2.03%	420
12	304800	Struct & Imp Misc	-	0.00%	-
13	305000	Collect & Impounding	148,253	2.54%	3,766
14	306000	Lakes, Rivers, Other Intakes	116,045	0.00%	-
15	307000	Wells & Springs	644,172	2.54%	16,362
16	310100	Power Generation Equip Other	50,935	5.12%	2,608
17	311200	Pump Equip Electric	1,353,198	3.71%	50,204
18	311300	Pump Equip Diesel	-	0.00%	-
19	311500	Pump Equip Other	4,202	0.00%	-
20	320100	WT Equip Non-Media	258,942	12.00%	31,073
21	330000	Dist Reservoirs & Standpipe	1,356,012	2.33%	31,595
22	331001	TD Mains Not Classified by Size	36,742	2.13%	783
23	331100	TD Mains 4in & Less	1,164,587	2.13%	24,806
24	331200	TD Mains 6in to 8in	959,064	2.13%	20,428
25	331300	TD Mains 10in to 16in	730,665	2.13%	15,563
26	333000	Services	278,916	2.89%	8,061
27	334100	Meters	175,586	3.52%	6,181
28	334200	Meter Installations	17,253	3.52%	607
29	335000	Hydrants	-	0.00%	-
30	339100	Othber P/E Intangible	-	0.00%	-
31	3392500	Other P/E SS	-	0.00%	-
32	340100	Office Furniture & Equip	3,254	4.10%	133
33	340200	Comp & Periph Equip	9,145	4.10%	375
34	341100	Trans Equip Lt Duty Trks	84,886	25.00%	21,222
35	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
36	342000	Stores Equipment	-	3.93%	-
37	343000	Tools,Shop,Garage Equip	18,281	7.55%	1,380
38	344000	Laboratory Equipment	-	3.06%	-
39	345000	Power Operated Equipment	33,093	9.23%	3,054
40	346100	Comm Equip Non-Telephone	11,702	4.10%	480
41	346300	Comm Equip Other	44,414	6.19%	2,749
42	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 9,774,795		\$ 300,364
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			25,755
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 326,119
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITZATION OF REGULATORY ASSETS			834
48		AMORTIZATION OF CONTRIBUTIONS			(6,011)
49		AMORTIZATION OF REGULATORY CIAC			(28,087)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				\$ 292,855
52	Company As Filed				291,351
53	Difference				\$ 1,504
54	RUCO Adjustment (See RLM-7, Column (C))				\$ 1,504

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	1.8822%		2.7151%
3	Havasu Water District (Line 1 X Line 2)	\$ 11,519	\$ -	\$ 11,519
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 3,840
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 3,840
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ (0)
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ (0)

NOTE

	4-Factor Allocation	Company As Filed		RUCO As Adjusted	
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasu Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 2	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	1.3850%
3	Havasu Water District	Lines 1 X 2	<u>\$ 6,678</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (2,004)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (2,004)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	ALLO'C'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Havasu Water Direct Miscellaneous Account (RLM-12, Pg, Ln 119)	\$ -	100.00%	\$ -	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	1.3850%	\$ (188)	
3	TOTAL				<u>\$ (188)</u>
4	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-7, Column (H))				<u>\$ (188)</u>

NOTE

4-Factor Allocation

5	Sun City West Water District	8.3198%
6	Paradise Valley Water District	7.6863%
7	Tubac Water District	0.7254%
8	Agua Fria Water District	23.0946%
9	Havasu Water District	1.3850%
10	Mohave Water District	7.8288%
11	Mohave Wastewater District	1.0290%

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)
Column (D): Sums Of Column (C)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
		\$			
1	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	In-house training/seminars
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	SERVICES	Landscaping
67	PCard Undistributed	10.02	QUIZNOS	ANDREW C MARTINEZ	NON-Catered Food & Beverages
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEWAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	Catering/works catering
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	NON-Catered Food & Beverages
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Event organization services
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEBY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		<u>\$ 13,607.91</u>			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94			Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Ice Wagon The-PO/REMIT	SERVICE	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
103	Total	\$ 166.53	SAFEWAY STORE	ROBERT L CRON	
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc #602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ (300,033)
	LESS:		
2	Arizona State Tax	Line 11	(29,339)
3	Interest Expense	Note (A) Line 20	121,020
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (391,714)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	31.47%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ (123,280)</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ (300,033)
	LESS:		
8	Interest Expense	Note (A) Line 20	121,020
9	State Taxable Income	Line 7 - Line 8	\$ (421,053)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ (29,339)</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (123,280)
13	State Income Tax Expense	Line 11	(29,339)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ (152,619)</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(159,839)
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 7,220</u>
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	<u><u>\$ 7,220</u></u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 4,012,421
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	<u>\$ 121,020</u>

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u>7.00%</u>

References:

Columns (A) Thru (C): See Testimony - William A. Rigsby

MOHAVE WATER DISTRICT

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RLM-2		RATE BASE ADJUSTMENT NO. 3 - INTENTIONALLY LEFT BLANK
RLM-2		RATE BASE ADJUSTMENT NO. 4 - INTENTIONALLY LEFT BLANK
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RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - PROPERTY TAX COMPUTATION
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - TEST YEAR DEPRECIATION EXPENSE
RLM-10	1	OPERATING INCOME ADJUSTMENT NO. 3 - RATE CASE EXPENSE
TESTIMONY		OPERATING INCOME ADJUSTMENT NO. 4 - WASTE DISPOSAL EXPENSE
RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 5 - ANNUAL INCENTIVE PAY EXPENSE
TESTIMONY	1	OPERATING INCOME ADJUSTMENT NO. 6 - ONLY AGUA FRIA, MOHAVE WATER AND SUN CITY WEST CONFORMING ADJUSTMENT TO COMPANY REVISIONS LABOR
RLM-12		OPERATING INCOME ADJUSTMENT NO. 7 - REMOVE INAPPROPRIATE/UNNECESSARY MISC. EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 12,041,310	\$ 9,841,553
2	Adjusted Operating Income (Loss)	\$ 37,140	\$ 254,661
3	Current Rate Of Return (L2 / L1)	0.31%	2.59%
4	Required Operating Income (L5 X L1)	\$ 1,011,470	\$ 688,531
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 974,330	\$ 433,870
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6990	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 1,655,410	\$ 706,615
9	Adjusted Test Year Revenue	\$ 5,113,631	\$ 5,113,631
10	Proposed Annual Revenue (L8 + L9)	\$ 6,769,041	\$ 5,820,246
11	Required Percentage Increase In Revenue (L8 / L9)	32.37%	13.82%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 688,531			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	254,661			
13	Required Increase In Operating Income (L11 - L12)		\$ 433,870		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 180,456			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(196,927)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 377,383		
17	Total Required Increase In Revenue (L13 + L16)		\$ 811,253		
				RUCO	
CALCULATION OF INCOME TAX:				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 5,820,246	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			5,055,897	
20	Synchronized Interest (Col. (C), L37)			296,834	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 467,516	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 32,576
24	Fed. Taxable Income (L21 - L23)			\$ 434,939	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			33,979	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 147,879
31	Combined Federal And State Income Tax (L23 + L30)				\$ 180,456
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (196,927)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 377,383
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 9,841,553	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 296,834	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'ED OCRB/FVRB	
1	Gross Utility Plant In Service	\$ 28,800,225	\$ -	\$ 28,800,225	
2	Accumulated Depreciation	\$ (13,084,198)	175,741	\$ (12,908,457)	
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 15,716,027</u>	<u>\$ 175,741</u>	<u>\$ 15,891,768</u>	
4	Advances In Aid Of Const.	\$ (5,947,009)	\$ (291,910)	\$ (6,238,919)	
5	Contribution In Aid Of Const.	\$ (107,545)	\$ (94,453)	\$ (201,998)	
6	Accumulated Amortization Of CIAC	\$ -	(27,517)	\$ (27,517)	
7	NET CIAC (L6 + L7)	<u>\$ (107,545)</u>	<u>\$ (121,969)</u>	<u>\$ (229,514)</u>	
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	
9	Imputed Regulatory Contributions	\$ (1,157,044)	\$ -	\$ (1,157,044)	
10	Customer Meter Deposits	\$ (7,800)	\$ -	\$ (7,800)	\$ -
11	Deferred Income Taxes And Credits	\$ 1,360,455	\$ -	\$ 1,360,455	
12	Investment Tax Credits	\$ -	\$ -	\$ -	
13	Deferred Debits	\$ 1,749,805	\$ (1,649,972)	\$ 99,833	
14	Allowance For Working Capital	\$ 434,422	\$ (311,647)	\$ 122,775	
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	
16	Rounding	\$ (1)	\$ -	\$ (1)	
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 12,041,310</u>	<u>\$ (2,199,757)</u>	<u>\$ 9,841,553</u>	\$ (2,199,757)

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 ACC AMORT PER GB 18.7	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTED OCRB/FVFB
1	Gross Utility Plant In Service	\$ 28,800,225	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,800,225
2	Accumulated Depreciation	(13,084,198)	175,741	-	-	-	-	-	(12,908,457)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 15,716,027	\$ 175,741	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,891,768
4	Advances In Aid Of Const.	\$ (5,947,009)	\$ -	\$ (291,910)	\$ -	\$ -	\$ -	\$ -	\$ (6,238,919)
5	Contribution In Aid Of Const.	\$ (107,545)	\$ -	\$ (94,453)	\$ -	\$ -	\$ -	\$ -	\$ (201,998)
6	Accumulated Amortization Of CIAC	-	-	-	(27,517)	-	-	-	(27,517)
7	NET CIAC (L5 + L6)	\$ (107,545)	\$ -	\$ (94,453)	\$ (27,517)	\$ -	\$ -	\$ -	\$ (229,514)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (1,157,044)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,157,044)
10	Customer Meter Deposits	\$ (7,800)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,800)
11	Deferred Income Taxes And Credits	\$ 1,360,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,360,455
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,749,805	\$ -	\$ -	\$ -	\$ -	\$ (1,649,972)	\$ -	\$ 99,833
14	Allowance For Working Capital	\$ 434,422	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (311,647)	\$ 122,775
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	(1)	(1)	-	-	-	-	-	(1)
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 12,041,310	\$ 175,741	\$ (386,362)	\$ (27,517)	\$ -	\$ (1,649,972)	\$ (311,647)	\$ 9,841,553

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (D): Adjustment No. 3 - Intentionally Left Blank
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - To Correct Deferred Debit Balance per Company's Response to Staff DR GWB 17.1
- Column (G): Adjustment No. 6 - Allowance For Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 9, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 69440 - ADJUSTED	PRIOR DECISION NO. 69440 - ADJUSTED	PRIOR DECISION NO. 69440 - ADJUSTED	PRIOR DECISION NO. 69440 - ADJUSTED	PRIOR DECISION NO. 69440 - ADJUSTED	PRIOR DECISION NO. 69440 - ADJUSTED	PRIOR DECISION NO. 69440 - ADJUSTED
			DEP. RATE	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	ACC. DEP. ADJUSTMENT	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.0000%	\$ 34,004	\$ -	\$ -	\$ -	\$ 34,004	\$ -
2	302000	Franchises	0.0000%	37,061	-	-	-	37,061	-
3	303200	Land & Land Rights SS	0.0000%	245,942	-	-	-	245,942	-
4	303300	Land & Land Rights P	0.0000%	2,361	-	-	-	2,361	-
5	303500	Land & Land Rights TD	0.0000%	9,609	-	-	-	9,609	-
6	303600	Land & Land Rights AG	0.0000%	330	-	-	-	330	-
7	304100	Struct & Imp SS	2.8300%	387,473	(126,063)	-	-	387,473	(126,063)
8	304200	Struct & Imp P	2.3900%	1,687	2,504	-	-	1,687	2,504
9	304300	Struct & Imp WT	2.5000%	47,846	(10,419)	-	-	47,846	(10,419)
10	304400	Struct & Imp TD	1.8100%	4,583	(2,289)	-	-	4,583	(2,289)
11	304500	Struct & Imp Offices	2.0300%	453,659	(69,489)	-	-	453,659	(69,489)
12	304700	Struct & Imp - Stores	2.0300%	29,223	(3,382)	-	-	29,223	(3,382)
13	305000	Collect & Impounding	2.5400%	663,944	(135,632)	-	-	663,944	(135,632)
14	306000	Lakes, Rivers, Other Intakes	0.0000%	-	-	-	-	-	-
15	307000	Wells & Springs	2.7000%	791,320	(355,381)	-	-	791,320	(355,381)
16	310100	Power Generation Equip Other	0.0000%	-	-	-	-	-	-
17	311200	Pump Equip Electric	5.1200%	2,001,791	(1,245,328)	-	-	2,001,791	(1,245,328)
18	311300	Pump Equip Diesel	0.0000%	-	-	-	-	-	-
19	311500	Pump Equip Other	5.1200%	-	-	-	-	-	-
20	320100	WT Equip Non-Media	12.0000%	50,870	(65,161)	-	-	50,870	(65,161)
21	330000	Dist Reservoirs & Standpipe	1.8100%	1,584,352	(335,665)	-	-	1,584,352	(335,665)
22	331001	TD Mains Not Classified by Size	2.6100%	49,469	(3,471)	-	-	49,469	(3,471)
23	331100	TD Mains 4in & Less	2.6100%	11,674,017	(4,537,588)	-	-	11,674,017	(4,537,588)
24	331200	TD Mains 6in to 8in	2.6100%	531,949	(27,309)	-	-	531,949	(27,309)
25	331300	TD Mains 10in to 16in	2.6100%	26,108	(140)	-	-	26,108	(140)
26	333000	Services	5.4100%	3,028,461	(1,895,297)	-	-	3,028,461	(1,895,297)
27	334100	Meters	6.5300%	1,764,594	(838,696)	-	-	1,764,594	(838,696)
28	334200	Meter Installations	6.5300%	146,773	(11,077)	-	-	146,773	(11,077)
29	335000	Hydrants	0.0000%	941	(2)	-	-	941	(2)
30	339100	Other P/E Intangible	0.0000%	-	-	-	-	-	-
31	3392500	Other P/E SS	0.0000%	-	-	-	-	-	-
32	340100	Office Furniture & Equip	4.1000%	179,568	(33,872)	-	-	179,568	(33,872)
33	340200	Comp & Periph Equip	4.1000%	340,017	51,232	-	-	340,017	51,232
34	340300	Computer Software	4.1000%	-	(68)	-	-	-	(68)
35	341100	Trans Equip Lt Duty Trks	25.0000%	528,511	(763,169)	-	-	528,511	(763,169)
36	341200	Trans Equip Hvy Duty Trks	25.0000%	-	-	-	-	-	-
37	342000	Stores Equipment	3.9300%	3,232	(2,583)	-	-	3,232	(2,583)
38	343000	Tools, Shop, Garage Equip	7.5500%	89,873	(113,587)	-	-	89,873	(113,587)
39	344000	Laboratory Equipment	3.0600%	7,623	(6,693)	-	-	7,623	(6,693)
40	345000	Power Operated Equipment	9.2300%	47,338	(70,775)	-	-	47,338	(70,775)
41	346100	Communication Equipment	4.1000%	141,519	(28,785)	-	-	141,519	(28,785)
42	346200	Communication Equipment Telephone	4.1000%	-	(2,424)	-	-	-	(2,424)
43	346300	Miscellaneous Equipment	6.1900%	11,948	(12,708)	-	-	11,948	(12,708)
44	TOTAL			\$ 24,917,996	\$ (10,643,317)	\$ -	\$ -	\$ 24,917,996	\$ (10,643,317)
45	Per Company Work Papers			\$ 24,917,996	\$ (10,643,317)	\$ -	\$ -	\$ 24,917,996	\$ (10,643,317)
46	RUCO Increase (Decrease) to GUPIS & Accum. Depr.			\$ 0	\$ -	\$ -	\$ -	\$ 0	\$ -

References:

Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 9, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 34,004	\$ -	\$ 34,004
2	302000	Franchises	-	-	-	37,061	-	37,061
3	303200	Land & Land Rights SS	38,104	-	-	284,045	-	284,045
4	303300	Land & Land Rights P	-	-	-	2,361	-	2,361
5	303500	Land & Land Rights TD	-	-	-	9,609	-	9,609
6	303600	Land & Land Rights AG	-	-	-	330	-	330
7	304100	Struct & Imp SS	1,793	-	(5,485)	389,266	(131,548)	257,718
8	304200	Struct & Imp P	-	-	(20)	1,687	2,484	4,171
9	304300	Struct & Imp WT	-	-	(598)	47,246	(11,017)	36,829
10	304400	Struct & Imp TD	-	-	(41)	4,583	(2,330)	2,253
11	304500	Struct & Imp Offices	3,481	-	(4,608)	457,140	(74,097)	383,043
12	304700	Struct & Imp - Stores	-	-	(677)	29,223	(4,059)	25,165
13	305000	Collect & Impounding	-	-	(8,432)	663,944	(144,064)	519,880
14	306000	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
15	307000	Wells & Springs	18,329	-	(10,826)	809,649	(366,207)	443,441
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	92,398	-	(51,694)	2,094,189	(1,297,022)	797,167
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(3,052)	50,870	(68,213)	(17,343)
21	330000	Dist Reservoirs & Standpipe	-	-	(14,338)	1,584,352	(350,003)	1,234,348
22	331001	TD Mains Not Classified by Size	-	-	(646)	49,469	(4,117)	45,353
23	331100	TD Mains 4in & Less	30,737	-	(152,401)	11,704,754	(4,689,989)	7,014,764
24	331200	TD Mains 6in to 8in	1,226,551	-	(8,276)	1,758,500	(35,585)	1,722,915
25	331300	TD Mains 10in to 16in	1,019	-	(340)	27,126	(480)	26,646
26	333000	Services	85,864	-	(82,599)	3,114,325	(1,977,896)	1,136,429
27	334100	Meters	14,572	(744)	(57,760)	1,778,423	(895,712)	882,711
28	334200	Meter Installations	35,625	(10,991)	(5,070)	171,407	(5,156)	166,251
29	335000	Hydrants	35,446	-	-	36,387	(2)	36,385
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	(4,046)	(3,619)	175,522	(33,445)	142,077
33	340200	Comp & Periph Equip	-	(81,744)	(5,714)	258,273	127,262	385,535
34	340300	Computer Software	-	-	-	-	(68)	(68)
35	341100	Trans Equip Lt Duty Trks	-	(34,838)	(65,701)	493,673	(794,032)	(300,359)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	(64)	3,232	(2,647)	585
38	343000	Tools, Shop, Garage Equip	45,767	-	(3,537)	135,640	(117,124)	18,516
39	344000	Laboratory Equipment	-	-	(117)	7,623	(8,810)	813
40	345000	Power Operated Equipment	49,848	-	(3,915)	97,186	(74,690)	22,495
41	346100	Communication Equipment	641	-	(2,901)	142,160	(31,686)	110,474
42	346200	Communication Equipment Telephone	-	-	-	-	(2,424)	(2,424)
43	346300	Miscellaneous Equipment	-	-	(370)	11,948	(13,078)	(1,129)
44	TOTAL	0	\$ 1,680,173	\$ (132,362)	\$ (492,800)	\$ 26,465,807	\$ (11,003,755)	\$ 15,462,052
45	Per Company Work Papers		1,680,173	(132,362)	(365,887)	26,465,808	(11,009,204)	15,456,604
46	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		\$ (0)	\$ 0	\$ 126,913	\$ (1)	\$ (5,449)	\$ 5,448

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 29, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 34,004	\$ -	\$ 34,004
2	302000	Franchises	-	-	-	37,061	-	37,061
3	303200	Land & Land Rights SS	6,732	-	-	290,777	-	290,777
4	303300	Land & Land Rights P	-	(10)	-	2,351	10	2,361
5	303500	Land & Land Rights TD	-	-	-	9,609	-	9,609
6	303600	Land & Land Rights AG	-	-	-	330	-	330
7	304100	Struct & Imp SS	-	-	(11,016)	359,266	(142,564)	246,702
8	304200	Struct & Imp P	-	-	(40)	1,687	2,444	4,131
9	304300	Struct & Imp WT	-	-	(1,196)	47,846	(12,213)	35,633
10	304400	Struct & Imp TD	-	-	(83)	4,583	(2,413)	2,170
11	304500	Struct & Imp Offices	-	-	(9,280)	457,140	(83,377)	373,763
12	304700	Struct & Imp - Stores	-	-	(1,353)	29,223	(5,412)	23,812
13	305000	Collect & Impounding	-	-	(16,864)	663,344	(160,928)	503,016
14	306000	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(21,861)	809,649	(388,068)	421,581
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	57,840	-	(108,207)	2,152,029	(1,405,229)	746,800
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	-	-	-	-	-	-
20	320100	WT Equip Non-Media	-	-	(6,104)	50,870	(74,318)	(23,447)
21	330000	Dist Reservoirs & Standpipe	-	-	(28,677)	1,584,352	(378,680)	1,205,672
22	331001	TD Mains Not Classified by Size	-	-	(1,291)	49,469	(5,408)	44,062
23	331100	TD Mains 4in & Less	9,620	-	(305,597)	11,714,374	(4,995,586)	6,718,788
24	331200	TD Mains 6in to 8in	534,983	-	(50,145)	2,293,483	(85,730)	2,207,753
25	331300	TD Mains 10in to 16in	668	-	(710)	27,794	(1,190)	26,605
26	333000	Services	205,401	-	(173,199)	3,319,725	(2,151,094)	1,168,631
27	334100	Meters	15,472	(1,065)	(116,284)	1,792,829	(1,010,930)	781,899
28	334200	Meter Installations	66,567	(13,053)	(4,498)	224,921	3,399	228,320
29	335000	Hydrants	453	-	-	36,840	(2)	36,838
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(7,196)	175,522	(40,641)	134,881
33	340200	Comp & Periph Equip	-	-	(10,589)	258,273	116,673	374,946
34	340300	Computer Software	-	-	-	-	(68)	(68)
35	341100	Trans Equip Lt Duty Trks	17,533	(168,094)	46,581	343,112	(579,357)	(236,246)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	-	(127)	3,232	(2,774)	458
38	343000	Tools, Shop, Garage Equip	-	(31)	(10,209)	135,609	(127,302)	8,307
39	344000	Laboratory Equipment	-	-	(233)	7,623	(7,043)	580
40	345000	Power Operated Equipment	-	-	(8,970)	97,186	(83,681)	13,525
41	345100	Communication Equipment	27,499	-	(6,842)	169,659	(38,528)	131,131
42	346200	Communication Equipment Telephone	-	-	-	-	(2,424)	(2,424)
43	346300	Miscellaneous Equipment	4,902	-	(5,642)	16,850	(18,719)	(1,869)
44	TOTAL	0	\$ 947,669	\$ (182,254)	\$ (859,632)	\$ 27,231,222	\$ (11,681,134)	\$ 15,550,089
45	Per Company Work Papers		947,669	(182,254)	(836,298)	27,231,223	(11,845,502)	15,385,721
46	RUCO Increase (Decrease) to GUPIS & Accum. Depre.		\$ (0)	\$ (0)	\$ 23,334	\$ 1	\$ (164,368)	\$ 164,368

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 34,004	\$ -	\$ 34,004
2	302000	Franchises	-	-	-	37,061	-	37,061
3	303200	Land & Land Rights SS	14	-	-	290,791	-	290,791
4	303300	Land & Land Rights P	-	-	-	2,351	10	2,361
5	303500	Land & Land Rights TD	-	-	-	9,609	-	9,609
6	303600	Land & Land Rights AG	30,722	-	-	31,052	-	31,052
7	304100	Struct & Imp SS	-	-	(11,016)	389,266	(153,580)	235,686
8	304200	Struct & Imp P	-	-	(40)	1,687	2,403	4,090
9	304300	Struct & Imp WT	-	-	(1,196)	47,846	(13,409)	34,437
10	304400	Struct & Imp TD	-	-	(83)	4,583	(2,496)	2,087
11	304600	Struct & Imp Offices	7	-	(9,280)	457,147	(92,657)	364,490
12	304700	Struct & Imp - Stores	-	-	(1,353)	29,223	(6,765)	22,459
13	305000	Collect & Impounding	-	-	(16,864)	663,944	(177,792)	486,152
14	306000	Lakes, Rivers, Other Intakes	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(21,861)	809,649	(409,929)	399,720
16	310100	Power Generation Equip Other	137,874	-	-	137,874	-	137,874
17	311200	Pump Equip Electric	117,239	(2,138)	(111,856)	2,267,130	(1,514,947)	752,183
18	311300	Pump Equip Diesel	-	-	-	-	-	-
19	311500	Pump Equip Other	1,009	-	(6)	1,009	(6)	1,002
20	320100	WT Equip Non-Media	-	-	(6,104)	50,870	(80,422)	(29,552)
21	330000	Dist Reservoirs & Standpipe	-	(222)	(28,677)	1,584,130	(407,135)	1,176,995
22	331001	TD Mains Not Classified by Size	-	-	(1,291)	49,489	(6,699)	42,771
23	331100	TD Mains 4in & Less	4,300	(27)	(305,794)	11,718,547	(5,301,353)	6,417,294
24	331200	TD Mains 6in to 8in	73,801	-	(61,746)	2,367,284	(147,476)	2,219,809
25	331300	TD Mains 10in to 16in	188,956	-	(2,363)	216,750	(3,553)	213,197
26	333000	Services	133,959	(5,852)	(183,522)	3,447,832	(2,328,764)	1,119,067
27	334100	Meters	20,661	(54,614)	(117,093)	1,758,875	(1,073,408)	685,467
28	334200	Meter Installations	23,541	-	(15,655)	248,462	(12,257)	236,205
29	335000	Hydrants	(366)	-	-	36,474	(2)	36,472
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	3392500	Other P/E SS	-	-	-	-	-	-
32	340100	Office Furniture & Equip	(563)	(37,314)	(7,111)	137,645	(10,438)	127,207
33	340200	Comp & Periph Equip	-	(191,431)	(10,262)	66,842	297,842	364,684
34	340300	Computer Software	833	-	(301)	833	(369)	464
35	341100	Trans Equip Lt Duty Trks	35	-	(85,786)	343,147	(665,144)	(321,997)
36	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
37	342000	Stores Equipment	-	(832)	(126)	2,400	(2,067)	333
38	343000	Tools, Shop, Garage Equip	(1,472)	-	(10,113)	134,137	(137,415)	(3,278)
39	344000	Laboratory Equipment	-	-	(233)	7,623	(7,276)	347
40	345000	Power Operated Equipment	75,343	-	(11,578)	172,529	(95,239)	77,290
41	346100	Communication Equipment	14,226	(3,351)	(7,503)	180,534	(42,680)	137,854
42	346200	Communication Equipment Telephone	49,678	-	(4,647)	49,678	(7,071)	42,607
43	346300	Miscellaneous Equipment	7,985	(19,725)	(1,466)	5,110	(460)	4,650
44	TOTAL	0	\$ 877,780	\$ (315,507)	\$ (1,034,927)	\$ 27,793,496	\$ (12,400,553)	\$ 15,392,943
45	Per Company Work Papers		877,780	(315,507)	(731,556)	27,793,496	(12,576,294)	15,217,202
46	RUCO Increase (Decrease) to GUPIS & Accum. Depr.		(0)	(0)	303,371	0	(175,741)	175,741
47	RUCO Adjustment to GUPIS & Accumulated Depreciation				RUCO TY As Calculated Company TY As Calculated	27,793,496 27,793,496	(12,400,553) (12,576,294)	
					RUCO Adjustments to Increase (Decrease) GUPIS & Accum. Depr.	(0)	(175,741)	

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 8,897	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	8,897	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 57,963	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	57,963	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 367,562	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	55,915	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (311,647)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (311,647)</u>	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 899,973	\$ (12,768)	\$ 887,205	12.0000	\$ 10,646,460
2	Purchased Water	44,384	-	44,384	186.9031	8,295,507
3	Fuel & Power	501,877	-	501,877	31.8430	15,981,269
4	Chemicals	7,846	-	7,846	18.5000	145,151
5	Waste Disposal	(295)	295	-	-	-
6	Management Fees	940,899	(11,325)	929,574	10.4000	9,667,569
7	Group Insurance	209,312	-	209,312	(14.0819)	(2,947,511)
8	Pensions	127,879	-	127,879	45.0000	5,754,555
9	Insurance Other Than Group	51,991	-	51,991	(68.2707)	(3,549,462)
10	Customer Accounting	132,002	-	132,002	20.9690	2,767,950
11	Rents	15,559	-	15,559	5.0391	78,403
12	Depreciation & Amorization	883,235	(883,235)	-	-	-
13	Other Operating Expenses	1,160,857	(97,212)	1,063,645	30.0000	31,909,338
	Taxes:					
14	Taxes Other Than Income	75,809	-	75,809	15.6698	1,187,912
15	Property Taxes	221,795	10,190	231,985	212.5000	49,296,775
16	Income Tax	422,238	(241,782)	180,456	28.7500	5,188,103
17	Interest Expense	-	296,834	296,834	106.5180	31,618,134
18	Total Appropriate Operating Expenses	<u>\$ 5,695,361</u>	<u>\$ (939,004)</u>	<u>\$ 4,756,357</u>		<u>\$ 166,040,154</u>
19	Expense Lag	Line 18, Col. (E) / (C)	34.91			
20	Revenue Lag	RUCO Workpapers	39.20			
21	Net Lag	Line 20 - Line 19	4.29			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 4,756,357</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>55,915</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	367,562			
25	Difference	Line 23 - Line 24	<u>\$ (311,647)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (311,647)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 4,932,608	\$ -	\$ 4,932,608	\$ 706,615	\$ 5,639,223
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	181,023	-	181,023	-	181,023
4	TOTAL OPERATING REVENUE	<u>\$ 5,113,631</u>	<u>\$ -</u>	<u>\$ 5,113,631</u>	<u>\$ 706,615</u>	<u>\$ 5,820,246</u>
	Operating Expenses:					
5	Labor	\$ 899,973	\$ (12,768)	\$ 887,205	\$ -	\$ 887,205
6	Purchased Water	44,384	-	44,384	-	44,384
7	Fuel & Power	501,877	-	501,877	-	501,877
8	Chemicals	7,846	-	7,846	-	7,846
9	Waste Disposal	(295)	295	-	-	-
10	Management Fees	940,899	(11,325)	929,574	-	929,574
11	Group Insurance	209,312	-	209,312	-	209,312
12	Pensions	127,879	-	127,879	-	127,879
13	Regulatory Expense	119,303	(96,100)	23,203	-	23,203
14	Insurance Other Than Group	51,991	-	51,991	-	51,991
15	Customer Accounting	132,002	-	132,002	-	132,002
16	Rents	15,559	-	15,559	-	15,559
17	General Office Expense	103,944	-	103,944	-	103,944
18	Miscellaneous	354,017	(1,407)	352,610	-	352,610
19	Maintenance Expense	583,888	-	583,888	-	583,888
20	Depreciation & Amortization	883,235	(106,405)	776,830	-	776,830
21	General Taxes - Property Taxes	221,795	10,190	231,985	-	231,985
22	General Taxes - Other	75,809	-	75,809	-	75,809
23	Income Tax	(196,927)	-	(196,927)	377,383	180,456
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 5,076,491</u>	<u>\$ (217,521)</u>	<u>\$ 4,858,970</u>	<u>\$ 377,383</u>	<u>\$ 5,236,353</u>
26	OPERATING INCOME (LOSS)	<u>\$ 37,140</u>	<u>\$ 217,521</u>	<u>\$ 254,661</u>	<u>\$ 329,233</u>	<u>\$ 583,894</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS

LINE NO.	DESCRIPTION	TEST YEAR AS FILED AND ADJUSTMENTS										(J) RUCO AS ADJTD
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)		
		COMPANY AS FILED	ADJMT NO. 1 PROPERTY TAX	ADJMT NO. 2 DEPRECIATN & AMORTIZN	ADJMT NO. 3 RATE CASE EXPENSE	ADJMT NO. 4 WASTE DISPOSAL	ADJMT NO. 5 AIP EXPENSE	ADJMT NO. 6 LABOR EXPENSE	ADJMT NO. 7 MISC. EXPENSES	ADJMT NO. 8 INCOME TAX		
1	Revenues:											
2	Metered Water Revenues	\$ 4,932,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,932,608	
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-	
4	Other Water Revenues	181,023	-	-	-	-	-	-	-	-	181,023	
	TOTAL OPERATING REV.	\$ 5,113,631	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,113,631	
5	Operating Expenses:											
6	Labor	\$ 899,973	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,768)	\$ -	\$ -	\$ 887,205	
7	Purchased Water	44,384	-	-	-	-	-	-	-	-	44,384	
8	Fuel & Power	501,877	-	-	-	-	-	-	-	-	501,877	
9	Chemicals	7,846	-	-	-	-	-	-	-	-	7,846	
10	Waste Disposal	(295)	-	-	-	295	-	-	-	-	-	
11	Management Fees	940,899	-	-	-	-	-	-	-	-	929,574	
12	Group Insurance	209,312	-	-	-	-	(11,325)	-	-	-	209,312	
13	Pensions	127,879	-	-	-	-	-	-	-	-	127,879	
14	Regulatory Expense	119,303	-	-	(96,100)	-	-	-	-	-	23,203	
15	Insurance Other Than Group	51,991	-	-	-	-	-	-	-	-	51,991	
16	Customer Accounting	132,002	-	-	-	-	-	-	-	-	132,002	
17	Rents	15,559	-	-	-	-	-	-	-	-	15,559	
18	General Office Expense	103,944	-	-	-	-	-	-	-	-	103,944	
19	Miscellaneous	354,017	-	-	-	-	-	-	(1,407)	-	352,610	
20	Maintenance Expense	583,888	-	-	-	-	-	-	-	-	583,888	
21	Depreciation & Amortization	883,235	-	(106,405)	-	-	-	-	-	-	776,830	
22	General Taxes - Property Taxes	221,795	10,190	-	-	-	-	-	-	-	231,985	
23	General Taxes - Other	75,809	-	-	-	-	-	-	-	-	75,809	
24	Income Tax	(196,927)	-	-	-	-	-	-	-	104,637	(196,927)	
25	Rounding	-	-	-	-	-	-	-	-	-	-	
	TOTAL OPERATING EXP.	\$ 5,076,491	\$ 10,190	\$ (106,405)	\$ (96,100)	\$ 295	\$ (11,325)	\$ (12,768)	\$ (1,407)	\$ 104,637	\$ 4,858,970	
26	OPERATING INC. (LOSS)	\$ 37,140									\$ 254,661	

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 To Correct Test Year Labor Expense
- 7 Miscellaneous Expense
- 8 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Per Company Response to DR GTM 8.7
- 5 Testimony, RLM And Schedule RLM-11
- 6 Agua Fria, Mohave & Sun City West Adjustment To Labor Expense
- 7 Testimony, RLM And Schedule RLM-12, pages 1 - 5
- 8 Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 5,113,631	
2	Adjusted Test Year Revenue	Schedule RLM-7	5,113,631	
3	RUCO Proposed Revenue	Schedule RLM-6	5,820,246	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 16,047,508	
5	Average Annual Operating Revenues	Line 4 / 3	5,349,169	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 10,698,339
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 498,471	
8	10% Of CWIP	Line 7 X 10%		\$ 49,847
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	RUCO Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	RUCO Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 10,748,186
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 2,472,083	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	9.38%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.38%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 231,985
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		221,795
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 10,190
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 10,190

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 34,004	0.00%	\$ -
2	302000	Franchises	37,061	0.00%	-
3	303200	Land & Land Rights SS	290,791	0.00%	-
4	303300	Land & Land Rights P	2,351	0.00%	-
5	303500	Land & Land Rights TD	9,609	0.00%	-
6	303600	Land & Land Rights AG	31,052	0.00%	-
7	304100	Struct & Imp SS	389,266	2.83%	11,016
8	304200	Struct & Imp P	1,687	2.39%	40
9	304300	Struct & Imp WT	47,846	2.50%	1,196
10	304400	Struct & Imp TD	4,583	1.81%	83
11	304600	Struct & Imp Offices	457,147	2.03%	9,280
12	304700	Struct & Imp - Stores	29,223	2.03%	593
13	305000	Collect & Impounding	663,944	2.54%	16,864
14	306000	Lakes, Rivers, Other Intakes	-	0.00%	-
15	307000	Wells & Springs	809,649	2.70%	21,861
16	310100	Power Generation Equip Other	137,874	0.00%	-
17	311200	Pump Equip Electric	2,267,130	5.12%	116,077
18	311300	Pump Equip Diesel	-	0.00%	-
19	311500	Pump Equip Other	1,009	5.12%	52
20	320100	WT Equip Non-Media	50,870	12.00%	6,104
21	330000	Dist Reservoirs & Standpipe	1,584,130	1.81%	28,673
22	331001	TD Mains Not Classified by Size	49,469	2.61%	1,291
23	331100	TD Mains 4in & Less	11,718,647	2.61%	305,857
24	331200	TD Mains 6in to 8in	2,367,284	2.61%	61,786
25	331300	TD Mains 10in to 16in	216,750	2.61%	5,657
26	333000	Services	3,447,832	5.41%	186,528
27	334100	Meters	1,758,875	6.53%	114,855
28	334200	Meter Installations	248,462	6.53%	16,225
29	335000	Hydrants	36,474	0.00%	-
30	339100	Othber P/E Intangible	-	0.00%	-
31	3392500	Other P/E SS	-	0.00%	-
32	340100	Office Furniture & Equip	137,645	4.10%	5,643
33	340200	Comp & Periph Equip	66,842	4.10%	2,741
34	340300	Computer Software	833	4.10%	34
35	341100	Trans Equip Lt Duty Trks	343,147	25.00%	85,787
36	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
37	342000	Stores Equipment	2,400	3.93%	94
38	343000	Tools,Shop,Garage Equip	134,137	7.55%	10,127
39	344000	Laboratory Equipment	7,623	3.06%	233
40	345000	Power Operated Equipment	172,529	9.23%	15,924
41	346100	Communication Equipment	180,534	4.10%	7,402
42	346200	Communication Equipment Telephone	49,678	4.10%	2,037
43	346300	Miscellaneous Equipment	5,110	6.19%	316
44	TOTAL	0	<u>\$ 27,793,496</u>		<u>\$ 1,034,377</u>
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			12,014
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			<u>\$ 1,046,391</u>
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITZATION OF REGULATORY ASSETS			9,384
48		AMORTIZATION OF CONTRIBUTIONS			7,561
49		AMORTIZATION OF REGULATORY CIAC			(286,506)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				<u>\$ 776,830</u>
52	Company As Filed				883,235
53	Difference				<u>\$ (106,405)</u>
54	RUCO Adjustment (See RLM-7, Column (C))				<u>\$ (106,405)</u>

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	11.3740%		16.4069%
3	Mohave Water District (Line 1 X Line 2)	\$ 69,609	\$ -	\$ 69,609
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 23,203
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 119,303
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ (96,100)
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ (96,100)

NOTE

	4-Factor Allocation		Company As Filed		RUCO As Adjusted
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasui Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 2	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	7.8288%
3	Mohave Water District	Lines 1 X 2	<u>\$ 37,750</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (11,325)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (11,325)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Mohave Water Direct Miscellaneous Account (RLM-12, Pg 4, Ln 148)	\$ (342.02)	100.00%	\$ (342)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	7.8288%	\$ (1,065)	
3	TOTAL				<u>\$ (1,407)</u>
4	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-7, Column (H))				<u>\$ (1,407)</u>

NOTE

4-Factor Allocation

5	Sun City West Water District	8.3198%
6	Paradise Valley Water District	7.6863%
7	Tubac Water District	0.7254%
8	Agua Fria Water District	23.0946%
9	Havasupai Water District	1.3850%
10	Mohave Water District	7.8288%
11	Mohave Wastewater District	1.0290%

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)
Column (D): Sums Of Column (C)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	\$ 55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHIL'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	In-house training/seminars
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckey, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckey, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	Catering/works catering
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	In-house training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-POIR	SERVICES	Landscaping
67	PCard Undistributed	10.02	QUIZNOS	ANDREW C MARTINEZ	NON-Catered Food & Beverages
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEWAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEWAY STORE	ROY PEREZ JR	Catering/works catering
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	NON-Catered Food & Beverages
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	Event organization services
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEBY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		\$ 13,607.91			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCEALLOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 57,734
	LESS:		
2	Arizona State Tax	Line 11	(16,660)
3	Interest Expense	Note (A) Line 20	296,834
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (222,439)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (75,629)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 57,734
	LESS:		
8	Interest Expense	Note (A) Line 20	296,834
9	State Taxable Income	Line 7 - Line 8	\$ (239,100)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (16,660)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (75,629)
13	State Income Tax Expense	Line 11	(16,660)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (92,290)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(196,927)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 104,637
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 104,637

NOTE (A):

Interest Synchronization:			
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$	9,841,553
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)		3.02%
20	Interest Expense (L18 X L19)	\$	296,834

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u><u>7.00%</u></u>

References:

Columns (A) Thru (C): See Testimony - William A. Rigsby

MOHAVE WASTEWATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

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TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - REINSTATE AIAC ASSOCIATED WITH CWIP
RLM-2	1	RATE BASE ADJUSTMENT NO. 3 - INTENTIONALLY LEFT BLANK
RLM-4	1	RATE BASE ADJUSTMENT NO. 4 - REMOVE 50% OF WISHING WELL TREATMENT PLANT AS NOT-USED & USEFUL
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RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 5 - ANNUAL INCENTIVE PAY EXPENSE
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RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 4,740,149	\$ 2,713,527
2	Adjusted Operating Income (Loss)	\$ 15,619	\$ 78,651
3	Current Rate Of Return (L2 / L1)	0.33%	2.90%
4	Required Operating Income (L5 X L1)	\$ 398,173	\$ 189,843
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 382,554	\$ 111,191
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6786	1.4888
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 642,148	\$ 165,546
9	Adjusted Test Year Revenue	\$ 796,161	\$ 796,161
10	Proposed Annual Revenue (L8 + L9)	\$ 1,438,309	\$ 961,707
11	Required Percentage Increase In Revenue (L8 / L9)	80.66%	20.79%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3283			
3	Subtotal (L1 - L2)	0.6717			
4	Revenue Conversion Factor (L1 / L3)	1.4888			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	27.8026%			
9	Effective Federal Income Tax Rate (L7 X L8)	25.8654%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	32.8334%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 189,843			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	78,651			
13	Required Increase In Operating Income (L11 - L12)		\$ 111,191		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 52,794			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(1,560)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 54,354		
17	Total Required Increase In Revenue (L13 + L16)		\$ 165,546		
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 961,707	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			719,070	
20	Synchronized Interest (Col. (C), L37)			81,843	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 160,793	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 11,204
24	Fed. Taxable Income (L21 - L23)			\$ 149,589	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			19,340	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 41,590
31	Combined Federal And State Income Tax (L23 + L30)				\$ 52,794
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (1,560)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 54,354
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				27.80%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 2,713,527	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 81,843	

Arizona-Americian Water Company
Docket Nos. SW & W-01303A-08-0227
Test Year Ended December 31, 2007

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 7,154,300
2	Accumulated Depreciation	\$ (367,213)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 6,787,087</u>
4	Advances In Aid Of Const.	\$ (1,414,706) 0
5	Contribution In Aid Of Const.	\$ (668,945)
6	Accumulated Amortization Of CIAC	\$ -
7	NET CIAC (L6 + L7)	<u>\$ (668,945)</u>
8	Imputed Regulatory Advances	\$ -
9	Imputed Regulatory Contributions	\$ (131,237)
10	Customer Meter Deposits	\$ -
11	Deferred Income Taxes And Credits	\$ 105,590
12	Investment Tax Credits	\$ -
13	Deferred Debits	\$ -
14	Allowance For Working Capital	\$ 62,360
15	Utility Plant Acquisition Adjustment	\$ -
16	Rounding	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u><u>\$ 4,740,149</u></u>

References:

- Column (A): Company Schedule B-1
- Column (B): Schedule RLM-2
- Column (C): Column (A) + Column (B)

Mohave Wastewater District
Schedule RLM-2A
Page 1 of 1

(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB	
\$ (1,966,040)	\$ 5,188,260	
62,797	\$ (304,416)	
<u>\$ (1,903,243)</u>	<u>\$ 4,883,844</u>	
\$ -	\$ (1,414,706)	
\$ (65,395)	\$ (734,340)	
-	\$ -	
<u>\$ (65,395)</u>	<u>\$ (734,340)</u>	
\$ -	\$ -	
\$ -	\$ (131,237)	
\$ -	\$ -	\$ -
\$ -	\$ 105,590	
\$ -	\$ -	
\$ 7,701	\$ 7,701	
\$ (65,685)	\$ (3,325)	
\$ -	\$ -	
\$ -	\$ -	
<u>\$ (2,026,622)</u>	<u>\$ 2,713,527</u>	\$ (2,026,622)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMUL'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4 WISHING WELL	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCRB/FVRB
1	Gross Utility Plant In Service	\$ 7,154,300	\$ -	\$ -	\$ -	\$ (1,966,040)	\$ -	\$ -	\$ 5,188,260
2	Accumulated Depreciation	(367,213)	62,797	-	-	-	-	-	(304,416)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 6,787,087	\$ 62,797	\$ -	\$ -	\$ (1,966,040)	\$ -	\$ -	\$ 4,883,844
4	Advances In Aid Of Const.	\$ (1,414,706)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,414,706)
5	Contribution In Aid Of Const. - Net	\$ (668,945)	\$ -	\$ (65,395)	\$ -	\$ -	\$ -	\$ -	\$ (734,340)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	-	-	-
7	NET CIAC (L5 + L6)	\$ (668,945)	\$ -	\$ (65,395)	\$ -	\$ -	\$ -	\$ -	\$ (734,340)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (131,237)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (131,237)
10	Customer Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	Deferred Income Taxes And Credits	\$ 105,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,590
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,701	\$ -	\$ 7,701
14	Allowance For Working Capital	\$ 62,360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (65,685)	\$ (3,325)
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 4,740,149	\$ 62,797	\$ (65,395)	\$ -	\$ (1,966,040)	\$ 7,701	\$ (65,685)	\$ 2,713,527

References:

- Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, TJC)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Intentionally Left Blank
Column (E): Adjustment No. 4 - To Remove 50% of Post Test Year Treatment Plant Expansion as Not-Used & Useful
Column (F): Adjustment No. 5 - Adjust Deferred Debits Per Company Responses To Staff Data Request GWB 17.1
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED JUNE 24, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 67093 - ADJUSTED	RUCO ADJUSTED PRIOR TEST YEAR		RUCO ADJUSTED PRIOR TEST YEAR		RUCO ADJUSTED PRIOR TEST YEAR	
			DEP. RATE	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	ACC. DEP. ADJUSTMENT	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.00%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352000	Franchises	0.00%	364	-	-	-	364	-
3	354200	Structures and Improvements	2.80%	201,579	(36,083)	-	-	201,579	(36,083)
4	360000	Sewer Lines	2.00%	5,382	(670)	-	-	5,382	(670)
5	361100	WW Collecting Mains	2.00%	1,222,426	(98,162)	-	-	1,222,426	(98,162)
6	362000	WW Special Collecting Struct.	2.00%	74,760	(17,095)	-	-	74,760	(17,095)
7	363000	WW Services Sewer	2.04%	300,003	(36,615)	-	-	300,003	(36,615)
8	364000	WW Flow Measuring Devices	5.42%	7,984	(2,099)	-	-	7,984	(2,099)
9	371100	WW Pumping Equipment Elect.	5.42%	16,371	(3,122)	-	-	16,371	(3,122)
10	380100	WW Equipment Sed Tanks/Acc	3.60%	745,415	(110,163)	-	-	745,415	(110,163)
11	380300	WW TD Equipment Sldge Dry/Flt	5.00%	8,807	(1,932)	-	-	8,807	(1,932)
12	380500	WW TD Equipment Chem Trmt Plant	5.00%	5,284	(1,120)	-	-	5,284	(1,120)
13	380600	WW TD Equipment Other Disposal	5.00%	39,898	(6,806)	-	-	39,898	(6,806)
14	393000	WW Tool Shop & Garage Equipment	4.47%	39,599	(21,814)	-	-	39,599	(21,814)
15	394000	WW Laboratory Equipment	3.71%	587	(107)	-	-	587	(107)
16	396000	Communication Equipment	4.24%	-	-	-	-	-	-
17	398000	Other Plant	0.00%	-	-	-	-	-	-
18	TOTAL			\$ 2,668,459	\$ (335,788)	\$ -	\$ -	\$ 2,668,459	\$ (335,788)
19									
20	Per Company Work Papers			\$ 2,668,459	\$ (335,788)	\$ -	\$ -	\$ 2,668,459	\$ (335,788)
21	Increase (Decrease) GUPIS & Accumulated Depre.			\$ 0	\$ -	\$ -	\$ -	\$ 0	\$ -

References:

Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 9, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352000	Franchises	-	-	-	364	-	364
3	354200	Structures and Improvements	-	-	(2,822)	201,579	(38,905)	162,674
4	360000	Sewer Lines	-	-	(54)	5,382	(724)	4,658
5	361100	WW Collecting Mains	225,046	-	(12,412)	1,447,472	(110,574)	1,336,898
6	362000	WW Special Collecting Struct.	-	-	(748)	74,760	(17,843)	56,918
7	363000	WW Services Sewer	-	-	(3,060)	300,003	(39,675)	260,328
8	364000	WW Flow Measuring Devices	15,129	-	(251)	23,113	(2,350)	20,764
9	371100	WW Pumping Equipment Elect.	-	-	(444)	16,371	(3,566)	12,805
10	380100	WW Equipment Sed Tanks/Acc	12,397	-	(13,436)	757,812	(123,599)	634,212
11	380300	WW TD Equipment Sldge Dry/Filt	-	-	(220)	8,807	(2,152)	6,655
12	380500	WW TD Equipment Chem Trmt Plant	9,027	-	(151)	14,311	(1,271)	13,041
13	380600	WW TD Equipment Other Disposal	-	-	(997)	39,898	(7,803)	32,095
14	393000	WW Tool Shop & Garage Equipment	-	-	(885)	39,599	(22,699)	16,900
15	394000	WW Laboratory Equipment	-	-	(11)	587	(118)	469
16	396000	Communication Equipment	8,933	-	(23)	8,933	(23)	8,910
17	398000	Other Plant	-	-	-	-	-	-
18	TOTAL		\$ 270,532	\$ -	\$ (35,513)	\$ 2,938,991	\$ (371,301)	\$ 2,567,690
19								
20	Per Company Work Papers		270,532	-	(46,457)	2,938,991	(382,245)	2,556,746
21	Increase (Decrease) GUPIS & Accumulated Depre.		\$ 0	\$ -	\$ (10,944)	\$ 0	\$ (10,944)	\$ 10,944

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDTS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352000	Franchises	-	-	-	364	-	364
3	354200	Structures and Improvements	-	-	(5,644)	201,579	(44,549)	157,030
4	360000	Sewer Lines	-	-	(108)	5,382	(831)	4,551
5	361100	WW Collecting Mains	21,655	-	(28,967)	1,469,127	(139,541)	1,329,586
6	362000	WW Special Collecting Struct.	-	-	(1,495)	74,760	(19,338)	55,423
7	363000	WW Services Sewer	14,311	-	(6,132)	314,314	(45,807)	268,507
8	364000	WW Flow Measuring Devices	-	-	(1,253)	23,113	(3,602)	19,511
9	371100	WW Pumping Equipment Elect.	2,711	-	(893)	19,082	(4,459)	14,623
10	380100	WW Equipment Sed Tanks/Acc	45,887	-	(27,350)	803,699	(150,949)	652,750
11	380300	WW TD Equipment Sldge Dry/Flt	-	-	(440)	8,807	(2,593)	6,214
12	380500	WW TD Equipment Chem Trmt Plant	-	-	(716)	14,311	(1,986)	12,325
13	380600	WW TD Equipment Other Disposal	(8)	-	(1,995)	39,891	(9,798)	30,092
14	393000	WW Tool Shop & Garage Equipment	-	-	(1,770)	39,599	(24,469)	15,130
15	394000	WW Laboratory Equipment	-	-	(22)	587	(140)	447
16	396000	Communication Equipment	17,237	-	(597)	26,170	(620)	25,550
17	398000	Other Plant	-	-	-	-	-	-
18	TOTAL		\$ 101,795	\$ -	\$ (77,383)	\$ 3,040,786	\$ (448,684)	\$ 2,592,102
20	Per Company Work Papers		101,795	-	(103,112)	3,040,786	(485,357)	2,555,429
21	Increase (Decrease) GUPIS & Accumulated Depre.		\$ -	\$ -	\$ (25,729)	\$ 0	\$ (36,673)	\$ 36,673

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	352000	Franchises	-	-	-	364	-	364
3	354200	Structures and Improvements	-	-	(5,644)	201,579	(50,194)	151,386
4	360000	Sewer Lines	-	-	(108)	5,382	(939)	4,443
5	361100	WW Collecting Mains	146,580	-	(29,505)	1,615,707	(169,046)	1,446,661
6	362000	WW Special Collecting Struct.	-	-	(1,495)	74,760	(20,833)	53,927
7	363000	WW Services Sewer	29	-	(6,412)	314,343	(52,219)	262,124
8	364000	WW Flow Measuring Devices	-	-	(1,253)	23,113	(4,855)	18,258
9	371100	WW Pumping Equipment Elect.	(147)	-	(1,034)	18,935	(5,493)	13,442
10	380100	WW Equipment Sed Tanks/Acc	89	-	(28,933)	803,788	(179,882)	623,905
11	380300	WW TD Equipment Sldge Dry/Fit	-	-	(440)	8,807	(3,033)	5,774
12	380500	WW TD Equipment Chem Trmt Plant	-	-	(716)	14,311	(2,702)	11,609
13	380600	WW TD Equipment Other Disposal	(872)	-	(1,993)	39,019	(11,791)	27,228
14	393000	WW Tool Shop & Garage Equipment	4,638	-	(1,779)	44,237	(26,248)	17,989
15	394000	WW Laboratory Equipment	-	-	(22)	587	(161)	426
16	396000	Communication Equipment	35	-	(1,620)	26,205	(2,240)	23,965
17	398000	Other Plant	-	-	-	-	-	-
18	TOTAL		\$ 150,353	\$ -	\$ (80,953)	\$ 3,191,139	\$ (529,637)	\$ 2,661,502
20	Per Company Work Papers		150,353	-	(107,077)	3,191,139	(592,434)	2,598,705
21	Increase (Decrease) GUPIS & Accumulated Depre.		\$ (0)	\$ -	\$ (26,124)	\$ (0)	\$ (62,797)	\$ 62,797

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

Arizona-Amercian Water Company
Docket Nos. SW & W-01303A-08-0227
Test Year Ended December 31, 2007

EXPLANATION OF RATE BASE ADJUSTME
MOHAVE WASTEWATER WISHING WELL TREA
(A)

LINE NO.	DESCRIPTION	AMOUNT
1	Wishing Well Treatment Plant Cost Per Company	\$ 3,932,080
2	Remove 50% as Not Used and Useful	<u>50%</u>
3		
4	RUCO Adjustment to Increase (Decrease) UPIS	<u>\$ (1,966,040)</u>
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		

Mohave Wastewater District
Schedule RLM-4

ENT NO. 6
TMENT PLANT
(B)

REFERENCE

Company Schedule B-2, page 10 - LJG-10
Staff DR DH 16.2

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 341	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	341	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 3,661	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	3,661	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 58,358	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(7,327)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (65,685)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (65,685)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 108,996	\$ -	\$ 108,996	12.0000	\$ 1,307,952
2	Purchased Water	-	-	-	-	-
3	Fuel & Power	73,650	-	73,650	30.1963	2,223,957
4	Chemicals	9,214	-	9,214	46.0409	424,221
5	Waste Disposal	126,228	39	126,267	42.1707	5,324,768
6	Management Fees	123,665	(1,489)	122,176	10.4000	1,270,635
7	Group Insurance	24,046	-	24,046	(14.0819)	(338,613)
8	Pensions	18,447	-	18,447	45.0000	830,115
9	Insurance Other Than Group	7,294	-	7,294	(68.2707)	(497,966)
10	Customer Accounting	16,497	-	16,497	19.7595	325,972
11	Rents	1,613	-	1,613	5.0391	8,128
12	Depreciation & Amorization	248,398	(248,398)	-	-	-
13	Other Operating Expenses	51,688	(22,307)	29,381	30.0000	881,432
	Taxes:					
14	Taxes Other Than Income	9,778	-	9,778	14.7188	143,920
15	Property Taxes	37,922	6,406	44,328	212.5000	9,419,673
16	Income Tax	9,778	43,016	52,794	28.7500	1,517,820
17	Interest Expense	-	81,843	81,843	106.5180	8,717,796
18	Total Appropriate Operating Expenses	<u>\$ 867,214</u>	<u>\$ (140,890)</u>	<u>\$ 726,325</u>		<u>\$ 31,559,809</u>
19	Expense Lag	Line 18, Col. (E) / (C)	43.45			
20	Revenue Lag	RUCO Workpapers	39.77			
21	Net Lag	Line 20 - Line 19	(3.68)			
22	RUCO Adjusted Expenses	Col. (C), Line 18	\$ 726,325			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	(7,327)			
24	Company As Filed	Co. Schedule B-6, Page 1	58,358			
25	Difference	Line 23 - Line 24	\$ (65,685)			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	\$ (65,685)			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 791,279	\$ -	\$ 791,279	\$ 165,546	\$ 956,825
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Revenues	4,882	-	4,882	-	4,882
4	TOTAL OPERATING REVENUE	<u>\$ 796,161</u>	<u>\$ -</u>	<u>\$ 796,161</u>	<u>\$ 165,546</u>	<u>\$ 961,707</u>
	Operating Expenses:					
5	Labor	\$ 108,996	\$ -	\$ 108,996	\$ -	\$ 108,996
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	73,650	-	73,650	-	73,650
8	Chemicals	9,214	-	9,214	-	9,214
9	Waste Disposal	126,228	39	126,267	-	126,267
10	Management Fees	123,665	(1,489)	122,176	-	122,176
11	Group Insurance	24,046	-	24,046	-	24,046
12	Pensions	18,447	-	18,447	-	18,447
13	Regulatory Expense	22,140	(19,159)	2,981	-	2,981
14	Insurance Other Than Group	7,294	-	7,294	-	7,294
15	Customer Accounting	16,497	-	16,497	-	16,497
16	Rents	1,613	-	1,613	-	1,613
17	General Office Expense	7,874	-	7,874	-	7,874
18	Miscellaneous	16,726	(167)	16,559	-	16,559
19	Maintenance Expense	4,948	-	4,948	-	4,948
20	Depreciation & Amortization	248,398	(123,996)	124,402	-	124,402
21	General Taxes - Property Taxes	37,922	6,406	44,328	-	44,328
22	General Taxes - Other	9,778	-	9,778	-	9,778
23	Income Tax	(76,894)	75,334	(1,560)	54,354	52,794
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 780,542</u>	<u>\$ (63,032)</u>	<u>\$ 717,510</u>	<u>\$ 54,354</u>	<u>\$ 771,864</u>
26	OPERATING INCOME (LOSS)	<u>\$ 15,619</u>	<u>\$ 63,032</u>	<u>\$ 78,651</u>	<u>\$ 111,191</u>	<u>\$ 189,843</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 MISC EXPENSES	(H) ADJMT NO. 7 INCOME TAX	(I) RUCO AS ADJTD
1	Revenues:									
2	Metered Water Revenues	\$ 791,279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 791,279
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-
4	Other Revenues	4,882	-	-	-	-	-	-	-	4,882
	TOTAL OPERATING REV.	<u>\$ 796,161</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 796,161</u>
5	Operating Expenses:									
6	Labor	\$ 108,996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108,996
7	Purchased Water	-	-	-	-	-	-	-	-	-
8	Fuel & Power	73,650	-	-	-	-	-	-	-	73,650
9	Chemicals	9,214	-	-	-	-	-	-	-	9,214
10	Waste Disposal	126,228	-	-	-	39	-	-	-	126,267
11	Management Fees	123,665	-	-	-	-	(1,489)	-	-	122,176
12	Group Insurance	24,046	-	-	-	-	-	-	-	24,046
13	Pensions	18,447	-	-	-	-	-	-	-	18,447
14	Regulatory Expense	22,140	-	-	(19,159)	-	-	-	-	2,981
15	Insurance Other Than Group	7,294	-	-	-	-	-	-	-	7,294
16	Customer Accounting	16,497	-	-	-	-	-	-	-	16,497
17	Rents	1,613	-	-	-	-	-	-	-	1,613
18	General Office Expense	7,874	-	-	-	-	-	-	-	7,874
19	Miscellaneous	16,726	-	-	-	-	-	-	-	16,559
20	Maintenance Expense	4,948	-	-	-	-	-	(167)	-	4,948
21	Depreciation & Amortization	248,398	-	(123,996)	-	-	-	-	-	124,402
22	General Taxes - Property Taxes	37,922	6,406	-	-	-	-	-	-	44,328
23	General Taxes - Other	9,778	-	-	-	-	-	-	-	9,778
24	Income Tax	(76,894)	-	-	-	-	-	-	75,334	(1,560)
25	Rounding	-	-	-	-	-	-	-	-	-
	TOTAL OPERATING EXP.	<u>\$ 780,542</u>	<u>\$ 6,406</u>	<u>\$ (123,996)</u>	<u>\$ (19,159)</u>	<u>\$ 39</u>	<u>\$ (1,489)</u>	<u>\$ (167)</u>	<u>\$ 75,334</u>	<u>\$ 717,510</u>
26	OPERATING INC. (LOSS)	<u>\$ 15,619</u>								<u>\$ 78,651</u>

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Miscellaneous Expenses
- 7 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM And Schedule RLM-10
- Remove Credit Amounts Per Company Response To Staff DR GTM 8.7
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 796,161	
2	Adjusted Test Year Revenue	Schedule RLM-7	796,161	
3	RUCO Proposed Revenue	Schedule RLM-6	961,707	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 2,554,029	
5	Average Annual Operating Revenues	Line 4 / 3	851,343	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 1,702,686
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,689,307	
8	10% Of CWIP	Line 7 X 10%		\$ 168,931
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,871,616
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 430,472	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	10.30%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	10.30%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 44,328
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		37,922
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 6,406
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 6,406

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) RUCO DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ -	0.00%	\$ -
2	352000	Franchises	364	0.00%	-
3	354200	Structures and Improvements	584,532	2.80%	16,367
4	360000	Sewer Lines	5,382	2.00%	108
5	361100	WW Collecting Mains	1,615,707	2.00%	32,314
6	362000	WW Special Collecting Struct.	74,760	2.00%	1,495
7	363000	WW Services Sewer	314,343	2.04%	6,413
8	364000	WW Flow Measuring Devices	23,113	5.42%	1,253
9	371100	WW Pumping Equipment Elect	425,726	5.42%	23,074
10	380100	WW Equipment Sed Tanks/Acc	803,788	3.60%	28,936
11	380300	WW TD Equipment Sludge Dry/Flt	8,807	5.00%	440
12	380500	WW TD Equipment Chem Trmt Plant	14,311	5.00%	716
13	380600	WW TD Equipment Other Disposal	1,215,316	5.00%	60,766
14	393000	WW Tool Shop & Garage Equipment	44,237	4.47%	1,977
15	394000	WW Laboratory Equipment	587	3.71%	22
16	396000	Communication Equipment	26,205	4.24%	1,111
17	398000	Other Plant	-	0.00%	-
18	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 5,157,179		\$ 174,992
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			-
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 174,992
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			(18,093)
49		AMORTIZATION OF REGULATORY CIAC			(32,497)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				\$ 124,402
52	Company As Filed				248,398
53	Difference				\$ (123,996)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (123,996)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)
Represents 50% of Post Test Year Treatment Plant

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	1.4612%		2.1078%
3	Mohave Wastewater District (Line 1 X Line 2)	\$ 8,943	\$ -	\$ 8,943
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 2,981
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 22,140
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ (19,159)
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ (19,159)

NOTE

	4-Factor Allocation		Company As Filed		RUCO As Adjusted
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasui Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	1.0290%
3	Mohave Wastewater District	Lines 1 X 2	<u>\$ 4,962</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (1,489)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (1,489)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	RUCO ADJUSTMENTS ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Mohave Wastewater Direct Miscellaneous Account (RLM-12, Pg, Ln 113) \$	(26.92)	100.00%	\$ (27)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12. Pg 4, Ln 98) \$	(13,607.91)	1.0290%	\$ (140)	
3	TOTAL				<u>\$ (167)</u>

NOTE

4-Factor Allocation		
4	Sun City West Water District	8.3198%
5	Paradise Valley Water District	7.6863%
6	Tubac Water District	0.7254%
7	Agua Fria Water District	23.0946%
8	Havasau Water District	1.3850%
9	Mohave Water District	7.8288%
10	Mohave Wastewater District	1.0290%

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	\$ 55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS' & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	NON-Catered Food & Beverages
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRIE BAYSINGER	In-house training/seminars
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRIE BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRIE BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRIE BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	JAMES ISHMAEL	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	ANGEL STEVENS	NON-Catered Food & Beverages
67	PCard Undistributed	10.02	QUIZNOS	SERVICES	Landscaping
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	ANDREW C MARTINEZ	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	RANDY J ZIOLKOWSKI	Pathwaynet Default
71	Training AG	61.53	ROSATI'S PIZZA UNION H	ANGEL STEVENS	NON-Catered Food & Beverages
72	PCard Undistributed	4.99	SAFEWAY STORE	KURTIS L STRAUDEL	External training/seminars
73	PCard Undistributed	20.95	SAFEWAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
77	PCard Undistributed	15.64	SUBWAY 25139	ROY PEREZ JR	Catering/works catering
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	JEFFREY S BORN	NON-Catered Food & Beverages
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	Certificate	Event organization services
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
				CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cus# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	Tharpe Company Inc-REMIT	NANCY J HUCKEY	Land
94	Overnight Shipping AG	35.93	TLF CACTUS FLOWER FLOR	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	United Way of the Nat Capital	Water For People Sponsor	Sponsoring
97	Training AG	17.32	Water for People-REMIT	KURTIS L STRAUDEL	External training/seminars
98		\$ 13,607.91	WONDER BREAD/HOSTESS		

LINE NO	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.53	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	<u>\$ 166.53</u>			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	<u>\$ 313.29</u>			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	<u>\$ 17.12</u>			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	<u>\$ 2,307.02</u>			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	<u>\$ 342.02</u>			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	<u>\$ 26.92</u>			

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 77,091
	LESS:		
2	Arizona State Tax	Line 11	(331)
3	Interest Expense	Note (A) Line 20	81,843
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (4,421)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	27.80%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (1,229)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 77,091
	LESS:		
8	Interest Expense	Note (A) Line 20	81,843
9	State Taxable Income	Line 7 - Line 8	\$ (4,753)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (331)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (1,229)
13	State Income Tax Expense	Line 11	(331)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (1,560)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(76,894)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 75,334
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 75,334

NOTE (A):

Interest Synchronization:			
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$	2,713,527
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)		3.02%
20	Interest Expense (L18 X L19)	\$	81,843

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u>7.00%</u>

References:

Columns (A) Thru (C): See Testimony - William A. Rigsby

PARADISE VALLEY WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

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RLM-13		OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 40,864,986	\$ 37,018,940
2	Adjusted Operating Income (Loss)	\$ 1,552,498	\$ 1,586,688
3	Current Rate Of Return (L2 / L1)	3.80%	4.29%
4	Required Operating Income (L5 X L1)	\$ 3,432,659	\$ 2,591,326
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 1,880,161	\$ 1,004,638
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6496	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 3,101,550	\$ 1,636,188
9	Adjusted Test Year Revenue	\$ 7,848,732	\$ 7,848,732
10	Proposed Annual Revenue (L8 + L9)	\$ 10,950,282	\$ 9,484,920
11	Required Percentage Increase In Revenue (L8 / L9)	39.52%	20.85%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,591,326			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	1,586,688			
13	Required Increase In Operating Income (L11 - L12)		\$ 1,004,638		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 926,201			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	294,651			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 631,550		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 1,636,188</u>		
				RUCO	
CALCULATION OF INCOME TAX				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 9,484,920	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			5,967,392	
20	Synchronized Interest (Col. (C), L37)			1,117,972	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 2,399,555	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 167,201
24	Fed. Taxable Income (L21 - L23)			\$ 2,232,354	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			645,100	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 759,000
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 926,201</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 294,651
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				<u>\$ 631,550</u>
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 37,018,940	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			<u>\$ 1,117,972</u>	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ (2,177,734)	\$ 59,410,714
2	Accumulated Depreciation	(12,099,985)	355,950	(11,744,035)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 49,488,462</u>	<u>\$ (1,821,784)</u>	<u>\$ 47,666,678</u>
				0
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ (322,588)	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	5,539,222
7	NET CIAC (L6 + L7)	<u>\$ (7,250,116)</u>	<u>\$ (322,588)</u>	<u>\$ (7,572,704)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ (1,083,637)	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ (618,037)	\$ 87,678
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 40,864,986</u>	<u>\$ (3,846,046)</u>	<u>\$ 37,018,940</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECTN	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 POST TY PLANT	(E) ADJMT NO. 4 ACCUMULT'D DEPRECTN	(F) ADJMT NO. 5 GROSS PLANT	(G) ADJMT NO. 6 DEFERRED DEBITS	(H) ADJMT NO. 7 WORKING CAPITAL	(I) RUCO ADJTD OCRB/FVRB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ -	\$ -	\$ (2,109,032)	\$ -	\$ (68,702)	\$ -	\$ -	\$ 59,410,714
2	Accumulated Depreciation	(12,099,985)	(100,554)	-	-	456,414	90	-	-	(11,744,035)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 49,488,462	\$ (100,554)	\$ -	\$ (2,109,032)	\$ 456,414	\$ (68,612)	\$ -	\$ -	\$ 47,666,678
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	-	-	-	-	-	-	5,539,222
7	NET CIAC (L5 + L6)	\$ (7,250,116)	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,572,704)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,083,637)	\$ -	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (618,037)	\$ 87,678
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 40,864,986	\$ (100,554)	\$ (322,588)	\$ (2,109,032)	\$ 456,414	\$ (68,612)	\$ (1,083,637)	\$ (618,037)	\$ 37,018,940

References: Column (A): Company Schedule B-2

Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation Per Company Responses To RUCO Data Request 1.31

Column (C): Adjustment No. 2 - Reverse Company's Adjustment LUG-6 To Remove CIAC Associated With CWIP

Column (D): Adjustment No. 3 - Adjust Post Test-Year Plant Per Company Responses To RUCO Data Request 1.34

Column (E): Adjustment No. 4 - Adjust Test-Year Accumulated Depreciation First For Company Revised Dep. Rates Per Response To RUCO Data Request 1.07 & 1.08 And Second RUCO Computed Acc. Dep. Using A Mid-Month Convention.

Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request DH 4.3

Column (G): Adjustment No. 6 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request DH 4.3

Column (H): Adjustment No. 7 - Adjust Allowance For Working Capital To Reflect RUCO Operating Income Adjustments And the Disallowance Of Depreciation Expense In The Allowance.

Column (I): Sum Of Columns (A), (B), (C), (D), (E), (F), (G) & (H)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) DEP. RATE	(B) GROSS PLANT	(C) ACCUMULATED DEPRECIATION	(D) PLANT ADJUSTMENT	(E) RUCO ADJUSTED PRIOR TEST YEAR ACC. DEP. ADJUSTMENT	(F) GROSS PLANT	(G) ACCUMULATED DEPRECIATION
			PRIOR DECISION NO. 68858 - ADJUSTED						
1	301000	Organization	0.00%	\$ 15,350	\$ 477,338	\$ -	\$ -	\$ 15,350	\$ 477,338
2	302000	Franchises	0.00%	-	-	-	-	-	-
3	339600	Miscellaneous Intangibles	0.00%	-	589,424	-	-	-	589,424
4	303200	Land & Land Rights SS	0.00%	-	-	-	-	-	-
5	303300	Land & Land Rights P	0.00%	-	-	-	-	-	-
6	303500	Land & Land Rights TD	0.00%	8,324	-	-	-	8,324	-
7	303600	Land & Land Rights AG	0.00%	-	-	-	-	-	-
8	304100	Struct & Imp SS	14.59%	7,953	(13,190)	-	-	7,953	(13,190)
9	304200	Struct & Imp P	3.99%	69,131	22,038	-	-	69,131	22,038
10	304300	Struct & Imp WT	2.00%	3,038,848	(454,776)	-	-	3,038,848	(454,776)
11	304400	Struct & Imp TD	1.50%	23,864	(806)	-	-	23,864	(806)
12	304500	Struct & Imp AG	4.63%	15,173	(3,295)	-	-	15,173	(3,295)
13	304600	Struct & Imp Offices	4.63%	-	-	-	-	-	-
14	304700	Struct & Imp Store, Shop, & Garage	4.63%	93,285	(63,784)	-	-	93,285	(63,784)
15	304800	Struct & Imp Misc	4.63%	149,284	(14,179)	-	-	149,284	(14,179)
16	305000	Collect & Impounding	0.00%	-	-	-	-	-	-
17	307000	Wells & Springs	2.48%	1,252,563	(526,585)	-	-	1,252,563	(526,585)
18	310100	Power Generation Equip Other	4.42%	-	-	-	-	-	-
19	311200	Pump Equip Electric	4.39%	3,337,081	(993,356)	-	-	3,337,081	(993,356)
20	311300	Pump Equip Diesel	4.39%	59,421	(18,735)	-	-	59,421	(18,735)
21	311500	Pump Equip Other	0.00%	-	-	-	-	-	-
22	320100	WT Equip Non-Media	7.06%	5,825,149	(2,867,630)	-	-	5,825,149	(2,867,630)
23	309000	Supply Mains	1.11%	-	-	-	-	-	-
24	330000	Dist Reservoirs & Standpipe	3.15%	912,619	(140,643)	-	-	912,619	(140,643)
25	331001	TD Mains Not Classified By Size	0.00%	-	-	-	-	-	-
26	331100	TD Mains 4in & Less	4.17%	706,252	(488,966)	-	-	706,252	(488,966)
27	331200	TD Mains 6in to 8in	2.52%	3,974,977	(2,012,781)	-	-	3,974,977	(2,012,781)
28	331300	TD Mains 10in to 16in	2.34%	5,485,424	(1,392,736)	-	-	5,485,424	(1,392,736)
29	332000	Fire Mains	1.53%	-	-	-	-	-	-
30	333000	Services	4.72%	2,178,857	(924,802)	-	-	2,178,857	(924,802)
31	334100	Meters	7.21%	328,579	(90,243)	-	-	328,579	(90,243)
32	334200	Meter Installations	1.51%	103,799	(7,074)	-	-	103,799	(7,074)
33	335000	Hydrants	2.10%	746,904	(362,444)	-	-	746,904	(362,444)
34	339100	Other P/E Intangible	0.00%	-	-	-	-	-	-
35	339500	Other P/E TD	0.00%	-	-	-	-	-	-
36	340100	Office Furniture & Equip	4.04%	43,931	(19,546)	-	-	43,931	(19,546)
37	340200	Comp & Periph Equip	15.89%	98,019	(114,016)	-	-	98,019	(114,016)
38	340300	Computer Software	37.71%	134,174	(171,171)	-	-	134,174	(171,171)
39	340500	Other Office Equipment	7.13%	25,224	(7,015)	-	-	25,224	(7,015)
40	341100	Trans Equip Lt Duty Trks	28.05%	2,882	(20,122)	-	-	2,882	(20,122)
41	341300	Trans Equip Autos	7.80%	19,307	(16,087)	-	-	19,307	(16,087)
42	341400	Trans Equip Other	0.93%	13,606	(1,857)	-	-	13,606	(1,857)
43	343000	Tools, Shop, Garage Equip	3.61%	83,291	(24,816)	-	-	83,291	(24,816)
44	344000	Laboratory Equipment	3.71%	-	-	-	-	-	-
45	345000	Power Operated Equipment	4.64%	147,066	(46,243)	-	-	147,066	(46,243)
46	346100	Comm Equip Non-Telephone	9.76%	284,556	(140,452)	-	-	284,556	(140,452)
47	346300	Comm Equip Other	7.91%	81,331	(35,285)	-	-	81,331	(35,285)
48	TOTAL			\$ 29,266,224	\$ (9,883,835)	\$ -	\$ -	\$ 29,266,224	\$ (9,883,835)
49	Company As Filed			\$ 29,266,224	\$ (9,883,835)	\$ -	\$ -	\$ 29,266,224	\$ (9,883,835)
50	Difference			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:
Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 15,350	\$ 477,338	\$ 492,688
2	302000	Franchises	-	-	-	-	-	-
3	339600	Miscellaneous Intangibles	-	-	-	-	589,424	589,424
4	303200	Land & Land Rights SS	-	-	-	-	-	-
5	303300	Land & Land Rights P	-	-	-	-	-	-
6	303500	Land & Land Rights TD	-	-	-	8,324	-	8,324
7	303600	Land & Land Rights AG	-	-	-	-	-	-
8	304100	Struct & Imp SS	-	-	(1,160)	7,953	(14,350)	(6,397)
9	304200	Struct & Imp P	-	-	(2,800)	69,131	19,238	88,369
10	304300	Struct & Imp WT	-	-	(60,822)	3,038,848	(515,598)	2,523,250
11	304400	Struct & Imp TD	-	-	(358)	23,864	(1,164)	22,700
12	304500	Struct & Imp AG	-	-	(617)	15,173	(3,912)	11,261
13	304600	Struct & Imp Offices	-	-	-	-	-	-
14	304700	Struct & Imp Store, Shop, & Garage	-	-	(4,319)	93,285	(68,103)	25,182
15	304800	Struct & Imp Misc	-	-	(5,912)	149,284	(21,091)	128,193
16	305000	Collect & Impounding	-	-	-	-	-	-
17	307000	Wells & Springs	-	-	(31,249)	1,252,563	(557,834)	694,729
18	310100	Power Generation Equip Other	1,632	-	(2)	1,632	(2)	1,630
19	311200	Pump Equip Electric	147,829	-	(149,377)	3,484,910	(1,142,733)	2,342,177
20	311300	Pump Equip Diesel	-	-	(2,609)	59,421	(21,344)	38,077
21	311500	Pump Equip Other	-	-	-	-	-	-
22	320100	WT Equip Non-Media	-	-	(411,285)	5,825,149	(3,278,915)	2,546,234
23	309000	Supply Mains	-	-	-	-	-	-
24	330000	Dist Reservoirs & Standpipe	-	-	(28,747)	912,619	(169,390)	743,229
25	331001	TD Mains Not Classified By Size	2,886,702	-	-	2,886,702	-	2,886,702
26	331100	TD Mains 4in & Less	8,271	-	(29,619)	714,523	(518,585)	195,938
27	331200	TD Mains 6in to 8in	648,009	-	(104,038)	4,622,986	(2,116,819)	2,506,167
28	331300	TD Mains 10in to 16in	9,217	-	(128,475)	5,494,641	(1,521,211)	3,973,430
29	332000	Fire Mains	-	-	-	-	-	-
30	333000	Services	145,598	(271)	(105,444)	2,324,184	(1,029,975)	1,294,209
31	334100	Meters	17,430	(16,511)	(23,875)	329,498	(97,607)	231,891
32	334200	Meter Installations	6,866	-	(1,642)	110,665	(8,716)	101,949
33	335000	Hydrants	259,257	-	(16,802)	1,006,161	(379,246)	626,915
34	339100	Other P/E Intangible	-	-	-	-	-	-
35	339500	Other P/E TD	-	-	-	-	-	-
36	340100	Office Furniture & Equip	-	-	(1,775)	43,931	(21,321)	22,610
37	340200	Comp & Periph Equip	1,747	-	(15,713)	99,766	(129,729)	(29,963)
38	340300	Computer Software	13,862	-	(51,419)	148,036	(222,590)	(74,554)
39	340500	Other Office Equipment	-	-	(1,803)	25,224	(8,818)	16,406
40	341100	Trans Equip Lt Duty Trks	5,219	-	(1,173)	8,101	(21,295)	(13,194)
41	341300	Trans Equip Autos	-	(19,307)	(1,443)	-	1,777	1,777
42	341400	Trans Equip Other	-	-	(127)	13,606	(1,984)	11,622
43	343000	Tools, Shop, Garage Equip	1,319	-	(3,009)	84,610	(27,825)	56,785
44	344000	Laboratory Equipment	-	-	-	-	-	-
45	345000	Power Operated Equipment	-	-	(6,825)	147,066	(53,068)	93,998
46	346100	Comm Equip Non-Telephone	-	-	(27,773)	284,556	(168,225)	116,331
47	346300	Comm Equip Other	-	-	(6,433)	81,331	(41,718)	39,613
48	TOTAL		\$ 4,152,957	\$ (36,089)	\$ (1,227,645)	\$ 33,383,092	\$ (11,075,391)	\$ 22,307,701
49	Company As Filed		\$ 4,152,957	\$ (36,089)	\$ (1,191,951)	\$ 33,383,092	\$ (11,075,787)	\$ 22,307,305
50	Difference		\$ -	\$ -	\$ (35,694)	\$ -	\$ 396	\$ 396

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised PV ACC DEP", Sheet "2004-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 15,350	\$ 477,338	\$ 492,688
2	302000	Franchises	-	-	-	-	-	-
3	339600	Miscellaneous Intangibles	8,390	-	-	8,390	589,424	597,814
4	303200	Land & Land Rights SS	-	-	-	-	-	-
5	303300	Land & Land Rights P	-	-	-	-	-	-
6	303500	Land & Land Rights TD	-	-	-	8,324	-	8,324
7	303600	Land & Land Rights AG	-	-	-	-	-	-
8	304100	Struct & Imp SS	12,636,814	(6,984)	(219,654)	12,637,783	(227,020)	12,410,763
9	304200	Struct & Imp P	-	(69,131)	(2,643)	-	85,726	85,726
10	304300	Struct & Imp VWT	-	(35,758)	(60,747)	3,003,090	(540,587)	2,462,503
11	304400	Struct & Imp TD	-	(100)	(358)	23,764	(1,422)	22,342
12	304500	Struct & Imp AG	-	(9,442)	(590)	5,731	4,940	10,671
13	304600	Struct & Imp Offices	-	-	-	-	-	-
14	304700	Struct & Imp Store, Shop, & Garage	-	(90,249)	(4,145)	3,036	18,001	21,037
15	304800	Struct & Imp Misc	-	(149,284)	(6,624)	-	121,569	121,569
16	305000	Collect & Impounding	-	-	-	-	-	-
17	307000	Wells & Springs	30,684	-	(31,349)	1,283,247	(589,183)	694,064
18	310100	Power Generation Equip Other	418,265	-	(1,795)	419,897	(1,797)	418,100
19	311200	Pump Equip Electric	605,536	(682,711)	(154,582)	3,407,735	(614,604)	2,793,131
20	311300	Pump Equip Diesel	26,435	(85,719)	(1,702)	137	62,673	62,810
21	311500	Pump Equip Other	-	-	-	-	-	-
22	320100	WT Equip Non-Media	2,791,581	(21,682)	(435,202)	8,595,048	(3,692,435)	4,902,613
23	309000	Supply Mains	-	-	-	-	-	-
24	330000	Dist Reservoirs & Standpipe	1,011,606	-	(37,206)	1,924,225	(206,596)	1,717,629
25	331001	TD Mains Not Classified By Size	(501,133)	-	-	2,385,569	-	2,385,569
26	331100	TD Mains 4in & Less	728	(610,233)	(28,747)	105,018	62,901	167,919
27	331200	TD Mains 6in to 8in	110,312	-	(117,015)	4,733,298	(2,233,834)	2,499,464
28	331300	TD Mains 10in to 16in	2,987,361	-	(162,886)	8,482,002	(1,684,097)	6,797,905
29	332000	Fire Mains	-	-	-	-	-	-
30	333000	Services	150,668	-	(113,312)	2,474,852	(1,143,287)	1,331,565
31	334100	Meters	7,014	(15,107)	(23,235)	321,405	(105,735)	215,670
32	334200	Meter Installations	29,223	(217)	(1,875)	139,671	(10,374)	129,297
33	335000	Hydrants	19,521	-	(21,307)	1,025,682	(400,553)	625,129
34	339100	Other P/E Intangible	-	-	-	-	-	-
35	339500	Other P/E TD	-	-	-	-	-	-
36	340100	Office Furniture & Equip	20,853	(1,821)	(1,876)	62,963	(21,376)	41,587
37	340200	Comp & Periph Equip	19,512	(93,975)	(12,723)	25,303	(48,477)	(23,174)
38	340300	Computer Software	846	(134,174)	(41,080)	14,708	(129,496)	(114,788)
39	340500	Other Office Equipment	(18,710)	(5,840)	(1,281)	674	(4,259)	(3,585)
40	341100	Trans Equip Lt Duty Trks	(5,219)	(2,882)	(1,568)	(0)	(19,981)	(19,981)
41	341300	Trans Equip Autos	-	(19,307)	1,318	(19,307)	22,402	3,095
42	341400	Trans Equip Other	5,575	(3,466)	(148)	15,715	1,334	17,049
43	343000	Tools, Shop, Garage Equip	14,703	(5,358)	(3,161)	93,955	(25,628)	68,327
44	344000	Laboratory Equipment	16,552	-	75	16,552	75	16,627
45	345000	Power Operated Equipment	-	(50,935)	(6,725)	96,131	(8,858)	87,273
46	346100	Comm Equip Non-Telephone	75,930	(7,655)	(28,597)	352,831	(189,167)	163,664
47	346300	Comm Equip Other	3,600	(26,090)	(6,454)	58,841	(22,082)	36,759
48	TOTAL		\$ 20,466,647	\$ (2,128,120)	\$ (1,527,194)	\$ 51,721,619	\$ (10,474,465)	\$ 41,247,154
49	Company As Filed		\$ 20,466,647	\$ (2,128,120)	\$ (511,467)	\$ 51,721,619	\$ (10,564,321)	\$ 41,157,298
50	Difference		\$ -	\$ -	\$ (1,015,727)	\$ -	\$ 89,856	\$ 89,856

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised PV ACC DEP", Sheet "2004-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 15,350	\$ 477,338	\$ 492,688
2	302000	Franchises	-	-	-	-	-	-
3	339600	Miscellaneous Intangibles	2,130	-	-	10,520	589,424	599,944
4	303200	Land & Land Rights SS	-	-	-	-	-	-
5	303300	Land & Land Rights P	-	-	-	-	-	-
6	303500	Land & Land Rights TD	-	-	-	8,324	-	8,324
7	303600	Land & Land Rights AG	-	-	-	-	-	-
8	304100	Struct & Imp SS	4,338,382	-	(1,856,059)	16,976,165	(2,083,079)	14,893,086
9	304200	Struct & Imp P	-	-	-	-	85,726	85,726
10	304300	Struct & Imp WT	-	-	(60,062)	3,003,090	(600,649)	2,402,441
11	304400	Struct & Imp TD	-	-	(356)	23,764	(1,778)	21,986
12	304500	Struct & Imp AG	-	-	(229)	5,731	4,711	10,442
13	304600	Struct & Imp Offices	-	-	-	-	-	-
14	304700	Struct & Imp Store, Shop, & Garage	-	-	(141)	3,036	17,860	20,896
15	304800	Struct & Imp Misc	-	(8,633)	17	(8,633)	130,219	121,586
16	305000	Collect & Impounding	-	-	-	-	-	-
17	307000	Wells & Springs	152,883	-	(31,982)	1,436,130	(621,165)	814,965
18	310100	Power Generation Equip Other	134,734	-	(14,174)	554,631	(15,971)	538,660
19	311200	Pump Equip Electric	192,479	(199)	(148,762)	3,600,015	(763,167)	2,836,848
20	311300	Pump Equip Diesel	53	-	(8)	190	62,665	62,855
21	311500	Pump Equip Other	-	-	-	-	-	-
22	320100	WT Equip Non-Media	1,231,901	(795)	(615,880)	9,826,154	(4,307,520)	5,518,634
23	309000	Supply Mains	-	-	-	-	-	-
24	330000	Dist Reservoirs & Standpipe	268,864	(77,144)	(60,921)	2,115,945	(190,373)	1,925,572
25	331001	TD Mains Not Classified By Size	9,722	-	-	2,395,291	-	2,395,291
26	331100	TD Mains 4in & Less	10,011	(70)	(4,450)	114,959	58,521	173,480
27	331200	TD Mains 6in to 8in	313,000	(1)	(120,796)	5,046,297	(2,354,629)	2,691,668
28	331300	TD Mains 10in to 16in	776,025	(125,608)	(199,099)	9,132,419	(1,757,588)	7,374,831
29	332000	Fire Mains	14,058	-	-	14,058	-	14,058
30	333000	Services	264,460	(14,553)	(121,331)	2,724,759	(1,250,065)	1,474,694
31	334100	Meters	40,132	(10,668)	(23,962)	350,869	(119,029)	231,840
32	334200	Meter Installations	10,309	(1,675)	(2,229)	148,305	(10,928)	137,377
33	335000	Hydrants	28,639	-	(21,649)	1,054,321	(422,202)	632,119
34	339100	Other P/E Intangible	-	-	-	-	-	-
35	339500	Other P/E TD	-	-	-	-	-	-
36	340100	Office Furniture & Equip	(106)	(4,045)	(2,533)	58,812	(19,864)	38,948
37	340200	Comp & Periph Equip	6,529	-	(4,064)	31,832	(52,541)	(20,709)
38	340300	Computer Software	2	-	(5,547)	14,710	(135,043)	(120,333)
39	340500	Other Office Equipment	-	-	(48)	674	(4,307)	(3,633)
40	341100	Trans Equip Lt Duty Trks	-	-	-	(0)	(19,981)	(19,981)
41	341300	Trans Equip Autos	22,848	-	1,432	3,541	23,834	27,375
42	341400	Trans Equip Other	12,190	-	(152)	27,905	1,182	29,087
43	343000	Tools, Shop, Garage Equip	13,419	-	(3,856)	107,374	(29,484)	77,890
44	344000	Laboratory Equipment	1,068	-	(652)	17,620	(577)	17,043
45	345000	Power Operated Equipment	-	-	(4,460)	96,131	(13,318)	82,813
46	346100	Comm Equip Non-Telephone	44,971	(10,913)	(37,472)	386,889	(215,726)	171,163
47	346300	Comm Equip Other	-	-	(4,654)	58,841	(26,736)	32,105
48	TOTAL		\$ 7,888,703	\$ (254,304)	\$ (3,344,079)	\$ 59,356,018	\$ (13,564,240)	\$ 45,791,778
49	Company As Filed		\$ 7,888,703	\$ (185,602)	\$ (3,195,807)	\$ 59,424,720	\$ (13,760,126)	\$ 45,664,594
50	Difference		\$ -	\$ (68,702)	\$ (148,272)	\$ (68,702)	\$ 195,886	\$ 127,184

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised PV ACC DEP", Sheet "2004-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
POST TEST YEAR PLANT

			(A)	(B)	(C)	(D)	(E)	(F)	
LINE NO.	ACCT NO.	ACCOUNT NAME	PLANT ADDITIONS	PLANT RETIREMENTS	REVISED ACCUMULATED DEPRECIATION	TOTAL PLANT VALUE	ACCUMULATED DEPRECIATION	NET PLANT VALUE	
1	301000	Organization	\$ -	\$ -	\$ -	\$ 15,350	\$ 477,338	\$ 492,688	
2	302000	Franchises	-	-	-	-	-	-	
3	339600	Miscellaneous Intangibles	-	-	-	10,520	589,424	599,944	
4	303200	Land & Land Rights SS	-	-	-	-	-	-	
5	303300	Land & Land Rights P	-	-	-	-	-	-	
6	303500	Land & Land Rights TD	-	-	-	8,324	-	8,324	
7	303600	Land & Land Rights AG	-	-	-	-	-	-	
8	304100	Struct & Imp SS	(17,465,790)	-	2,183,315	(489,625)	100,236	(389,389)	
9	304200	Struct & Imp P	-	-	-	-	85,726	85,726	
10	304300	Struct & Imp WT	17,465,790	-	(299,330)	20,468,880	(899,979)	19,568,901	
11	304400	Struct & Imp TD	-	-	-	23,764	(1,778)	21,986	
12	304500	Struct & Imp AG	-	-	-	5,731	4,711	10,442	
13	304600	Struct & Imp Offices	-	-	-	-	-	-	
14	304700	Struct & Imp Store, Shop, & Garage	-	-	-	3,036	17,860	20,896	
15	304800	Struct & Imp Misc	-	-	-	(8,633)	130,219	121,586	
16	305000	Collect & Impounding	-	-	-	-	-	-	
17	307000	Wells & Springs	(1,851,214)	(159,973)	-	(575,057)	(461,192)	(1,036,249)	
18	310100	Power Generation Equip Other	-	-	-	554,631	(15,971)	538,660	
19	311200	Pump Equip Electric	-	-	-	3,600,015	(763,167)	2,836,848	
20	311300	Pump Equip Diesel	-	-	-	190	62,665	62,855	
21	311500	Pump Equip Other	-	-	-	-	-	-	
22	320100	WT Equip Non-Media	-	-	-	9,826,154	(4,307,520)	5,518,634	
23	309000	Supply Mains	-	-	-	-	-	-	
24	330000	Dist Reservoirs & Standpipe	-	-	-	2,115,945	(190,373)	1,925,572	
25	331001	TD Mains Not Classified By Size	-	-	-	2,395,291	-	2,395,291	
26	331100	TD Mains 4in & Less	-	-	-	114,959	58,521	173,480	
27	331200	TD Mains 6in to 8in	-	-	-	5,046,297	(2,354,629)	2,691,668	
28	331300	TD Mains 10in to 16in	-	-	-	9,132,419	(1,757,588)	7,374,831	
29	332000	Fire Mains	-	-	-	14,058	-	14,058	
30	333000	Services	-	-	-	2,724,759	(1,250,065)	1,474,694	
31	334100	Meters	-	-	-	350,869	(119,029)	231,840	
32	334200	Meter Installations	-	-	-	148,305	(10,928)	137,377	
33	335000	Hydrants	-	-	-	1,054,321	(422,202)	632,119	
34	339100	Other P/E Intangible	-	-	-	-	-	-	
35	339500	Other P/E TD	-	-	-	-	-	-	
36	340100	Office Furniture & Equip	-	-	-	58,812	(19,864)	38,948	
37	340200	Comp & Periph Equip	6,459	-	-	38,291	(52,541)	(14,250)	
38	340300	Computer Software	-	-	-	14,710	(135,043)	(120,333)	
39	340500	Other Office Equipment	-	-	-	674	(4,307)	(3,633)	
40	341100	Trans Equip Lt Duty Trks	-	-	-	(0)	(19,981)	(19,981)	
41	341300	Trans Equip Autos	-	-	-	3,541	23,834	27,375	
42	341400	Trans Equip Other	-	-	-	27,905	1,182	29,087	
43	343000	Tools,Shop,Garage Equip	3,742	-	-	111,116	(29,484)	81,632	
44	344000	Laboratory Equipment	-	-	-	17,620	(577)	17,043	
45	345000	Power Operated Equipment	-	-	-	96,131	(13,318)	82,813	
46	346100	Comm Equip Non-Telephone	-	-	-	386,889	(215,726)	171,163	
47	346300	Comm Equip Other	-	-	-	58,841	(26,736)	32,105	
48	TOTAL		\$ (1,841,013)	\$ (159,973)	\$ 1,883,984	\$ 57,355,032	\$ (11,520,283)	\$ 45,834,750	
49	Company As Filed		93,988	-	1,883,984	59,532,766	\$ (11,876,142)		
50	Difference		\$ (1,935,001)	\$ (159,973)	\$ -	\$ (2,177,734)	\$ 355,860	\$ 45,834,750	
						RUCO TY As Calculated	\$ 57,355,032	\$ (11,520,283)	
						RUCO Adjustments	2,177,734	(355,950)	(90)
						Co. TY Adjustments To Book	2,113,479	1,717,180	
						Co. Variance To GL	(93,985)	(1,883,985)	
						Co. Variance To GL	34,409	(107,315)	
						Co. Variance To GL	1,778	50,277	
						Total	\$ 61,588,447	\$ (12,100,075)	
						Co. As Filed	61,588,447	(12,099,985)	
						Difference	\$ (0)	\$ (90)	
						Adj. #1 - ConformingTo RUCO 1.31	\$ -	\$ (100,554)	
						Adj. #3 - ConformingTo RUCO 1.34	(2,109,032)	-	
						Adj. #4 - Difference In Computing Acc. Dep.	-	456,414	
						Adj. #5 - ConformingTo Std DH 4.3	(68,702)	-	
						Total RUCO Adjustments	\$ (2,177,734)	\$ 355,860	
						RUCO As Adjusted	59,410,714	(11,744,035)	
						RUCO Adjustments	(2,177,734)	355,860	
						Co. As Filed	61,588,447	(12,099,985)	
						Co. Adjustments	2,055,681	(223,843)	
						Co. Computed	59,532,766	(11,876,142)	

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised PV ACC DEP", Sheet "2004-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 38,726	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	38,726	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 117,955	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	117,955	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	549,034	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(69,003)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (618,037)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (618,037)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 715,859	\$ -	\$ 715,859	12.00	\$ 8,590,308
2	Purchased Water	-	-	-	-	-
3	Fuel & Power	693,068	-	693,068	32.42	22,470,166
4	Chemicals	236,982	(51,945)	185,037	18.06	3,340,843
5	Management Fees	923,778	(11,119)	912,659	10.40	
6	Group Insurance	184,827	-	184,827	(14.08)	(2,602,715)
7	Pensions	130,911	-	130,911	45.00	5,890,995
8	Insurance Other Than Group	45,435	-	45,435	(68.27)	(3,101,879)
9	Customer Accounting	123,742	-	123,742	19.76	2,444,872
10	Rents	21,467	-	21,467	(10.50)	(225,404)
11	Depreciation & Amortization	1,615,824	(1,615,824)	-	-	-
12	Other Operating Expenses	1,038,973	(24,796)	1,014,177	30.00	30,425,322
	Taxes:					
13	Taxes Other Than Income	67,972	-	67,972	15.07	1,024,651
14	Property Taxes	268,996	19,219	288,214	212.50	61,245,577
15	Income Tax	1,410,936	(484,735)	926,201	28.75	26,628,292
16	Interest Expense	-	1,117,972	1,117,972	106.52	119,086,377
17	Total Appropriate Operating Expenses	<u>\$ 7,478,770</u>	<u>\$ (1,051,228)</u>	<u>\$ 6,427,542</u>		<u>\$ 275,217,405</u>
18	Expense Lag	Line 17, Col. (E) / (C)	42.82			
19	Revenue Lag	Company Response To RUCO DR 8	38.90			
20	Net Lag	Line 20 - Line 19	(3.92)			
21	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 6,427,542</u>			
22	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>(69,003)</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	549,034			
24	Difference	Line 23 - Line 24	<u>\$ (618,037)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (618,037)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 7,832,113	\$ -	\$ 7,832,113	\$ 1,636,188	\$ 9,468,301
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	16,619	-	16,619	-	16,619
4	TOTAL OPERATING REVENUE	<u>\$ 7,848,732</u>	<u>\$ -</u>	<u>\$ 7,848,732</u>	<u>\$ 1,636,188</u>	<u>\$ 9,484,920</u>
	Operating Expenses:					
5	Labor	\$ 715,859	\$ -	\$ 715,859	\$ -	\$ 715,859
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	693,068	-	693,068	-	693,068
8	Chemicals	236,982	(51,945)	185,037	-	185,037
9	Waste Disposal	(290)	290	-	-	-
10	Management Fees	923,778	(11,119)	912,659	-	912,659
11	Group Insurance	184,827	-	184,827	-	184,827
12	Pensions	130,911	-	130,911	-	130,911
13	Regulatory Expense	21,283	-	21,283	-	21,283
14	Insurance Other Than Group	45,435	-	45,435	-	45,435
15	Customer Accounting	123,742	-	123,742	-	123,742
16	Rents	21,467	-	21,467	-	21,467
17	General Office Expense	87,860	-	87,860	-	87,860
18	Miscellaneous	351,828	(3,803)	348,025	-	348,025
19	Maintenance Expense	578,292	-	578,292	-	578,292
20	Depreciation & Amortization	1,615,824	(53,083)	1,562,741	-	1,562,741
21	General Taxes - Property Taxes	268,996	19,218	288,214	-	288,214
22	General Taxes - Other	67,972	-	67,972	-	67,972
23	Income Tax	228,400	66,251	294,651	631,550	926,201
24	Rounding	1	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 6,296,235</u>	<u>\$ (34,190)</u>	<u>\$ 6,262,044</u>	<u>\$ 631,550</u>	<u>\$ 6,893,594</u>
26	OPERATING INCOME (LOSS)	<u>\$ 1,552,497</u>	<u>\$ 34,190</u>	<u>\$ 1,586,688</u>	<u>\$ 1,004,638</u>	<u>\$ 2,591,326</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 WASTE DISPOSAL	(E) ADJMT NO. 4 CHEMICAL EXPENSE	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 MISC EXPENSES	(H) ADJMT NO. 7 INCOME TAX	(I) RUCO AS ADJTD
1	Revenues:									
2	Metered Water Revenues	\$ 7,832,113	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,832,113
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	16,619	-	-	-	-	-	-	-	16,619
	TOTAL OPERATING REV.	<u>\$ 7,848,732</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,848,732</u>
5	Operating Expenses:									
6	Labor	\$ 715,859	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 715,859
7	Purchased Water	-	-	-	-	-	-	-	-	-
8	Fuel & Power	693,068	-	-	-	-	-	-	-	693,068
9	Chemicals	236,982	-	-	-	(51,945)	-	-	-	185,037
10	Waste Disposal	(290)	-	-	290	-	-	-	-	-
11	Management Fees	923,778	-	-	-	-	(11,119)	-	-	912,659
12	Group Insurance	184,827	-	-	-	-	-	-	-	184,827
13	Pensions	130,911	-	-	-	-	-	-	-	130,911
14	Regulatory Expense	21,283	-	-	-	-	-	-	-	21,283
15	Insurance Other Than Group	45,435	-	-	-	-	-	-	-	45,435
16	Customer Accounting	123,742	-	-	-	-	-	-	-	123,742
17	Rents	21,467	-	-	-	-	-	-	-	21,467
18	General Office Expense	87,860	-	-	-	-	-	-	-	87,860
19	Miscellaneous	351,828	-	-	-	-	-	(3,803)	-	348,025
20	Maintenance Expense	578,292	-	-	-	-	-	-	-	578,292
21	Depreciation & Amortization	1,615,824	-	(53,083)	-	-	-	-	-	1,562,741
22	General Taxes - Property Taxes	268,996	19,218	-	-	-	-	-	-	288,214
23	General Taxes - Other	67,972	-	-	-	-	-	-	-	67,972
24	Income Tax	228,400	-	-	-	-	-	-	66,251	294,651
25	Rounding	1	-	-	-	-	-	-	-	-
	TOTAL OPERATING EXP.	<u>\$ 6,296,235</u>	<u>\$ 19,218</u>	<u>\$ (53,083)</u>	<u>\$ 290</u>	<u>\$ (51,945)</u>	<u>\$ (11,119)</u>	<u>\$ (3,803)</u>	<u>\$ 66,251</u>	<u>\$ 6,262,044</u>
26	OPERATING INC. (LOSS)	<u>\$ 1,552,497</u>								<u>\$ 1,586,688</u>

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Waste Disposal Expense
- 4 Chemical Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 7,848,732	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	7,848,732	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,484,920	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 25,182,384	
5	Average Annual Operating Revenues	Line 4 / 3	8,394,128	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 16,788,256
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,438,015	
8	10% Of CWIP	Line 7 X 10%		\$ 143,802
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 16,932,057
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,894,373	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	7.40%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	7.40%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 288,214
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		268,996
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 19,218
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 19,218

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 15,350	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	339600	Miscellaneous Intangibles	10,520	0.00%	-
4	303200	Land & Land Rights SS	-	0.00%	-
5	303300	Land & Land Rights P	-	0.00%	-
6	303500	Land & Land Rights TD	8,324	0.00%	-
7	303600	Land & Land Rights AG	-	0.00%	-
8	304100	Struct & Imp SS	(489,625)	14.59%	(71,436)
9	304200	Struct & Imp P	-	3.99%	-
10	304300	Struct & Imp WT	20,468,880	2.00%	409,378
11	304400	Struct & Imp TD	23,764	1.50%	356
12	304500	Struct & Imp AG	5,731	4.63%	265
13	304600	Struct & Imp Offices	-	4.63%	-
14	304700	Struct & Imp Store, Shop, & Garage	3,036	4.63%	141
15	304800	Struct & Imp Misc	(8,633)	4.63%	(400)
16	305000	Collect & Impounding	-	0.00%	-
17	307000	Wells & Springs	(575,057)	2.48%	(14,261)
18	310100	Power Generation Equip Other	554,631	4.42%	24,515
19	311200	Pump Equip Electric	3,600,015	4.39%	158,041
20	311300	Pump Equip Diesel	190	4.39%	8
21	311500	Pump Equip Other	-	0.00%	-
22	320100	WT Equip Non-Media	9,826,154	7.06%	693,726
23	309000	Supply Mains	-	1.11%	-
24	330000	Dist Reservoirs & Standpipe	2,115,945	3.15%	66,652
25	331001	TD Mains Not Classified By Size	2,395,291	0.00%	-
26	331100	TD Mains 4in & Less	114,959	4.17%	4,794
27	331200	TD Mains 6in to 8in	5,046,297	2.52%	127,167
28	331300	TD Mains 10in to 16in	9,132,419	2.34%	213,699
29	332000	Fire Mains	14,058	1.53%	215
30	333000	Services	2,724,759	4.72%	128,609
31	334100	Meters	350,869	7.21%	25,298
32	334200	Meter Installations	148,305	1.51%	2,239
33	335000	Hydrants	1,054,321	2.10%	22,141
34	339100	Other P/E Intangible	-	0.00%	-
35	339500	Other P/E TD	-	0.00%	-
36	340100	Office Furniture & Equip	58,812	4.04%	2,376
37	340200	Comp & Periph Equip	38,291	15.89%	6,084
38	340300	Computer Software	14,710	37.71%	5,547
39	340500	Other Office Equipment	674	7.13%	48
40	341100	Trans Equip Lt Duty Trks	(0)	28.05%	(0)
41	341300	Trans Equip Autos	3,541	7.80%	276
42	341400	Trans Equip Other	27,905	0.93%	260
43	343000	Tools, Shop, Garage Equip	111,116	3.61%	4,011
44	344000	Laboratory Equipment	17,620	3.71%	654
45	345000	Power Operated Equipment	96,131	4.64%	4,460
46	346100	Comm Equip Non-Telephone	386,889	9.76%	37,760
47	346300	Comm Equip Other	58,841	7.91%	4,654
48	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 57,355,032		\$ 1,857,277
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	120,225		26,819
	TOTAL	DEPRECIATION EXPENSE ON UPIS			1,884,096
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	1,899,267		61,324
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			72
48		AMORTIZATION OF CONTRIBUTIONS			(382,752)
49		AMORTIZATION OF REGULATORY CIAC			-
50		Rounding			1
51		TOTAL DEPRECIATION EXPENSE			\$ 1,562,741
52		Company As Filed			1,615,824
53		Difference			\$ (53,083)
54		RUCO Adjustment (See RLM-7, Column (C))			\$ (53,083)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	\$ 612,000	\$ (187,735)	\$ 424,265
2	Allocation Factor (See NOTE Below)	10.4331%		15.0497%
3	Paradise Valley Water District (Line 1 X Line 2)	\$ 63,851	\$ -	\$ 63,851
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			\$ 21,284
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			\$ 21,284
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			\$ -
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			\$ -

NOTE

4-Factor Allocation		Company As Filed		RUCO As Adjusted	
Districts Included In This Filing					
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasu Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	69.3243%	\$ 424,265	100.0000%	\$ 424,265
Districts NOT Included In This Filing					
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		100.0000%	\$ 612,000		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	7.6863%
3	Paradise Valley Water District	Lines 1 X 2	<u>\$ 37,063</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (11,119)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (11,119)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	RUCO ADJUSTMENTS ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Paradise Valley Water Direct Miscellaneous Account (RLM-12, Pg, Ln 10)	\$ (166.53)	100.00%	\$ (167)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	7.6863%	\$ (1,046)	
3	SUB-TOTAL				\$ (1,212)

NOTE

4-Factor Allocation

4	Sun City West Water District	8.3198%
5	Paradise Valley Water District	7.6863%
6	Tubac Water District	0.7254%
7	Agua Fria Water District	23.0946%
8	Havasu Water District	1.3850%
9	Mohave Water District	7.8288%
10	Mohave Wastewater District	1.0290%

ADDITIONAL ADJUSTMENT FOR PARADISE VALLEY WATER DISTRICT

The Company Incorrectly Calculated "Corporate Office" Expense As A Positive Value Instead Of A Negative Value

Adjustment SLH-16 As Filed By Company

11	Paradise Valley Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (1,524)	100.00%	\$ (1,524)	
12	Corporate Office Allocable Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ 16,849	7.6863%	\$ 1,295	
13	SUB-TOTAL				\$ (229)

Company's Adjustment As Revised By RUCO

14	Paradise Valley Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (1,524)	100.00%	\$ (1,524)	
15	Corporate Office Misc. Account (Recorded As a Negative Amount)	\$ (16,849)	7.6863%	\$ (1,295)	
16	SUB-TOTAL				(2,819)
17	DIFFERENCE (Column D, Line 16 - Line 13)				(2,590)
18	TOTAL (Column D, Sum Of Line 3 + Line 17)				\$ (3,803)
19	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (Line 18) (See RLM-7, Column (G))				(3,803)

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	\$ 55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	NON-Catered Food & Beverages
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	In-house training/seminars
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	JAMES ISHMAEL	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	ANGEL STEVENS	NON-Catered Food & Beverages
67	PCard Undistributed	10.02	QUIZNOS	SERVICES	Landscaping
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	ANDREW C MARTINEZ	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	RANDY J ZIOLKOWSKI	Pathwaynet Default
71	Training AG	61.53	ROSATI'S PIZZA UNION H	ANGEL STEVENS	NON-Catered Food & Beverages
72	PCard Undistributed	4.99	SAFEWAY STORE	KURTIS L STRAUDEL	External training/seminars
73	PCard Undistributed	20.95	SAFEWAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
77	PCard Undistributed	15.64	SUBWAY 25139	ROY PEREZ JR	Catering/works catering
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	JEFFREY S BORN	NON-Catered Food & Beverages
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	Certificate	Event organization services
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
				CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	Tharpe Company Inc-REMIT	NANCY J HUCKEY	Land
94	Overnight Shipping AG	35.93	TLF CACTUS FLOWER FLOR	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	United Way of the Nat Capital	Water For People Sponsor	Sponsoring
97	Training AG	17.32	Water for People-REMIT	KURTIS L STRAUDEL	External training/seminars
98		<u>\$ 13,607.91</u>	WONDER BREAD/HOSTESS		

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94	Ice Wagon The-PO/REMIT Clearwater Beverages LLC RED ROBIN NO SAFEWAY STORE	SERVICE SALE ORDER# 800 PAUL D TAYLOR ROBERT L CRON	Kitchen/Cleaning/Toiletries NON-Catered Food & Beverages NON-Catered Food & Beverages NON-Catered Food & Beverages
100	M & S Oper SS	59.03			
101	Misc Oper PP	57.63			
102	Misc Oper PP	30.93			
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT LONG JOHN SILV Peavey Performance Systems SUBWAY #10469 THE HOME DEPOT	03204265 NEIL J MEYER 1004289 NEIL J MEYER LEE F HUDDLESTON	Service Awards and Premiums NON-Catered Food & Beverages Service Awards and Premiums NON-Catered Food & Beverages Event organization services
105	Training AG	5.39			
106	Safety Incentive	132.00			
107	Training AG	6.26			
108	Misc Oper TD	33.98			
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCEALLEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012 United Way of the Nat Capital United Way of the Nat Capital	ROBERT L CRON SHIPPER# 6R29A2 SHIPPER# 6R29A2	NON-Catered Food & Beverages Mail/parcel delivery Mail/parcel delivery
111	Overnight Shipping AG	20.82			
112	Overnight Shipping AG	(20.82)			
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University Clearwater Beverages LLC CSI CRESTLINE CO INC Ice Wagon The-PO/REMIT	Project WET Sponsorship SALE ORDER# 800 SALLY L CECCARELLI WOLF SERVICE	Sponsoring NON-Catered Food & Beverages Service Awards and Premiums Kitchen/Cleaning/Toiletries
115	Misc Oper SS	157.41			
116	Water Res Conservation	317.39			
117	M & S Oper TD	44.22			
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT DENNY'S INC Ferguson Enterprises Inc #675 Ferguson Enterprises Inc-#602-	03204265 CHAD E GEBOW 7202007 CUST# 605937	Service Awards and Premiums NON-Catered Food & Beverages NON-Catered Food & Beverages NON-Catered Food & Beverages
121	M & S Oper TD	22.80			
122	M & S Oper TD	133.56			
123	M & S Oper TD	50.00			
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 1,881,340
	LESS:		
2	Arizona State Tax	Line 11	53,191
3	Interest Expense	Note (A) Line 20	1,117,972
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 710,176
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 241,460
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 1,881,340
	LESS:		
8	Interest Expense	Note (A) Line 20	1,117,972
9	State Taxable Income	Line 7 - Line 8	\$ 763,368
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 53,191
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 241,460
13	State Income Tax Expense	Line 11	53,191
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 294,651
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		228,400
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 66,251
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 66,251

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 37,018,940
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,117,972

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u>7.00%</u>

References:

Columns (A) Thru (F): Testimony, WAR

SUN CITY WEST WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

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TESTIMONY		RATE BASE ADJUSTMENT NO. 2 - REINSTATE CIAC ASSOCIATED WITH CWIP
TESTIMONY		RATE BASE ADJUSTMENT NO. 3 - ADJUSTMENT TO UPIS AND ACC. DEP. PER STAFF DR 4.3
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RLM-5	1 & 2	RATE BASE ADJUSTMENT NO. 6 - ALLOWANCE FOR WORKING CAPITAL
RLM-6	1	OPERATING INCOME
RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - PROPERTY TAX COMPUTATION
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - TEST YEAR DEPRECIATION EXPENSE
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RLM-12		OPERATING INCOME ADJUSTMENT NO. 7 - REMOVE INAPPROPRIATE/UNNECESSARY MISC. EXPENSES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 8 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 37,901,085	\$ 38,261,042
2	Adjusted Operating Income (Loss)	\$ 587,425	\$ 605,507
3	Current Rate Of Return (L2 / L1)	1.55%	1.58%
4	Required Operating Income (L5 X L1)	\$ 3,183,691	\$ 2,678,273
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 2,596,266	\$ 2,072,765
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6471	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 4,276,305	\$ 3,375,778
9	Adjusted Test Year Revenue	\$ 5,701,431	\$ 5,701,431
10	Proposed Annual Revenue (L8 + L9)	\$ 9,977,736	\$ 9,077,209
11	Required Percentage Increase In Revenue (L8 / L9)	75.00%	59.21%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,678,273			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	605,507			
13	Required Increase In Operating Income (L11 - L12)		\$ 2,072,765		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 957,278			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(345,734)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 1,303,012		
17	Total Required Increase In Revenue (L13 + L16)		\$ 3,375,778		
				RUCO	
CALCULATION OF INCOME TAX				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 9,077,209	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			5,441,658	
20	Synchronized Interest (Col. (C), L37)			1,155,483	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 2,480,068	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 172,811
24	Fed. Taxable Income (L21 - L23)			\$ 2,307,257	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			670,567	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 784,467
31	Combined Federal And State Income Tax (L23 + L30)				\$ 957,278
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (345,734)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 1,303,012
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 38,261,042	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,155,483	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 48,893,385	\$ 58,091	\$ 48,951,476
2	Accumulated Depreciation	(10,514,488)	(86,736)	(10,601,224)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 38,378,897</u>	<u>\$ (28,645)</u>	<u>\$ 38,350,252</u>
4	Advances In Aid Of Const.	\$ (1,175,373)	\$ -	\$ (1,175,373)
5	Contribution In Aid Of Const.	\$ (20,548)	\$ (17,318)	\$ (37,866)
6	Accumulated Amortization Of CIAC	1,057	-	1,057
7	NET CIAC (L6 + L7)	<u>\$ (19,491)</u>	<u>\$ (17,318)</u>	<u>\$ (36,809)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (392,368)	\$ -	\$ (392,368)
10	Customer Meter Deposits	\$ (1,225)	\$ -	\$ (1,225)
11	Deferred Income Taxes And Credits	\$ 1,326,577	\$ -	\$ 1,326,577
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ (777,486)	\$ 892,284	\$ 114,798
14	Allowance For Working Capital	\$ 561,556	\$ (486,364)	\$ 75,192
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ (2)</u>
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 37,901,085</u>	<u>\$ 359,957</u>	<u>\$ 38,261,042</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMUL'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 UPIS/ACC DEP PER DR DH 4.3	(E) ADJMT NO. 4 UPIS/ACC DEP PER DR GB 9.4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 48,893,385	\$ -	\$ -	\$ 76,672	\$ (18,581)	\$ -	\$ -	\$ 48,951,476
2	Accumulated Depreciation	(10,514,488)	(11,065)	-	(76,531)	860	-	-	(10,601,224)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 38,378,897</u>	<u>\$ 11,065</u>	<u>\$ -</u>	<u>\$ 141</u>	<u>\$ (17,721)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,350,252</u>
4	Advances In Aid Of Const.	\$ (1,175,373)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,175,373)
5	Contribution In Aid Of Const.	\$ (20,548)	\$ -	\$ (17,318)	\$ -	\$ -	\$ -	\$ -	\$ (37,866)
6	Accumulated Amortization Of CIAC	1,057	-	-	-	-	-	-	1,057
7	NET CIAC (L5 + L6)	<u>\$ (19,491)</u>	<u>\$ -</u>	<u>\$ (17,318)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (36,809)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (392,368)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (392,368)
10	Customer Meter Deposits	\$ (1,225)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,225)
11	Deferred Income Taxes And Credits	\$ 1,326,577	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,326,577
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ (777,486)	\$ -	\$ -	\$ -	\$ -	\$ 892,284	\$ -	\$ 114,798
14	Allowance For Working Capital	\$ 561,556	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (486,364)	\$ 75,192
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	<u>\$ (2)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	<u>\$ 37,901,085</u>	<u>\$ 11,065</u>	<u>\$ (17,318)</u>	<u>\$ 141</u>	<u>\$ (17,721)</u>	<u>\$ 892,284</u>	<u>\$ (486,364)</u>	<u>\$ 38,261,042</u>

References:

- Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Conforming Adjustment Per Company Response to Staff DR DH 4.3
Column (E): Adjustment No. 4 - Conforming Adjustment Per Company Response to Staff DR GB 9.4
Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2001

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A)	(B)	(C)	(D)	(E)	(F)	(G)
			PRIOR DECISION NO. 67093 - ADJUSTED	RUCO ADJUSTED PRIOR TEST YEAR		RUCO ADJUSTED PRIOR TEST YEAR		RUCO ADJUSTED PRIOR TEST YEAR	
			DEP. RATE	GROSS PLANT	ACCUMULATED DEPRECIATION	PLANT ADJUSTMENT	ACC. DEP. ADJUSTMENT	GROSS PLANT	ACCUMULATED DEPRECIATION
1	301000	Organization	0.00%	\$ 20,086	\$ -	\$ -	\$ -	\$ 20,086	\$ -
2	302000	Franchises	0.00%	1,588	-	-	-	1,588	-
3	303200	Land & Land Rights SS	0.00%	11,651	-	-	-	11,651	-
4	303300	Land & Land Rights P	0.00%	44,957	-	-	-	44,957	-
5	303500	Land & Land Rights TD	0.00%	-	-	-	-	-	-
6	303800	Land & Land Rights AG	0.00%	-	-	-	-	-	-
7	304100	Struct & Imp SS	2.50%	342,925	(94,969)	-	-	342,925	(94,969)
8	304200	Struct & Imp P	1.67%	231,439	(67,808)	-	-	231,439	(67,808)
9	304300	Struct & Imp WT	1.67%	38,357	(6,136)	-	-	38,357	(6,136)
10	304400	Struct & Imp TD	1.67%	-	-	-	-	-	-
11	304600	Struct & Imp Offices	1.67%	17,269	(5,876)	-	-	17,269	(5,876)
12	304800	Struct & Imp Misc	2.50%	-	-	-	-	-	-
13	305000	Collect & Impounding	0.00%	-	-	-	-	-	-
14	307000	Wells & Springs	2.52%	1,307,051	(295,642)	-	-	1,307,051	(295,642)
15	310100	Power Generation Equip Other	4.42%	-	-	-	-	-	-
16	311200	Pump Equip Electric	4.42%	4,860,858	(2,012,533)	-	-	4,860,858	(2,012,533)
17	311300	Pump Equip Diesel	4.42%	4,505	(1,428)	-	-	4,505	(1,428)
18	311500	Pump Equip Other	4.42%	1,764	(512)	-	-	1,764	(512)
19	320100	WT Equip Non-Media	4.00%	149,687	9,141	-	-	149,687	9,141
20	330000	Dist Reservoirs & Standpipe	1.67%	624,143	(151,245)	-	-	624,143	(151,245)
21	331001	TD Mains Not Classified By Size	1.53%	11,747,852	(2,527,298)	-	-	11,747,852	(2,527,298)
22	331100	TD Mains 4in & Less	1.53%	-	-	-	-	-	-
23	331200	TD Mains 6in to 8in	1.53%	-	-	-	-	-	-
24	331300	TD Mains 10in to 16in	1.53%	-	-	-	-	-	-
25	332000	Fire Mains	1.53%	169	(21)	-	-	169	(21)
26	333000	Services	2.48%	6,622,166	351,558	-	-	6,622,166	351,558
27	334100	Meters	2.51%	1,678,135	(332,448)	-	-	1,678,135	(332,448)
28	334200	Meter Installations	2.51%	-	-	-	-	-	-
29	335000	Hydrants	2.00%	1,682,898	(442,355)	-	-	1,682,898	(442,355)
30	339100	Other P/E Intangible	0.00%	-	-	-	-	-	-
31	339500	Other P/E TD	0.00%	-	-	-	-	-	-
32	340100	Office Furniture & Equip	4.59%	28,137	(28,245)	-	-	28,137	(28,245)
33	340200	Comp & Periph Equip	4.59%	74,599	3,663	-	-	74,599	3,663
34	341100	Trans Equip Lt Duty Trks	25.00%	337,524	(207,158)	-	-	337,524	(207,158)
35	341200	Trans Equip Hvy Duty Trks	25.00%	-	-	-	-	-	-
36	342000	Stores Equipment	3.91%	487	(375)	-	-	487	(375)
37	343000	Tools Shop, Garage Equip	4.02%	19,641	(5,525)	-	-	19,641	(5,525)
38	344000	Laboratory Equipment	3.71%	3,767	(1,395)	-	-	3,767	(1,395)
39	345000	Power Operated Equipment	5.02%	24,298	(10,823)	-	-	24,298	(10,823)
40	346100	Comm Equip Non-Telephone	10.30%	30,965	(31,231)	-	-	30,965	(31,231)
41	346300	Comm Equip Other	4.93%	43,870	(15,811)	-	-	43,870	(15,811)
42	SUB-TOTAL			\$ 29,950,788	\$ (5,874,472)	\$ -	\$ -	\$ 29,950,788	\$ (5,874,472)
43	Company As Filed			\$ 29,950,788	\$ (5,874,472)	\$ -	\$ -	\$ 29,950,788	\$ (5,874,472)
44	Difference			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:
Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,588	-	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(8,573)	342,925	(103,542)	239,383
8	304200	Struct & Imp P	-	-	(3,865)	231,439	(71,673)	159,766
9	304300	Struct & Imp WT	-	-	(641)	38,357	(6,777)	31,580
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(288)	17,269	(6,164)	11,105
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	-	-	(32,938)	1,307,051	(328,580)	978,471
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	167,104	-	(216,773)	5,027,962	(2,229,306)	2,798,656
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(1,627)	2,878
18	311500	Pump Equip Other	-	-	(78)	1,764	(590)	1,174
19	320100	WT Equip Non-Media	(2,173)	-	(5,958)	147,514	3,183	150,697
20	330000	Dist Reservoirs & Standpipe	145,791	-	(10,525)	769,934	(161,770)	608,164
21	331001	TD Mains Not Classified By Size	86,047	-	(55)	11,833,899	(2,527,353)	9,306,546
22	331100	TD Mains 4in & Less	(302)	-	(179,742)	(302)	(179,742)	(180,044)
23	331200	TD Mains 6in to 8in	86,511	-	(80)	86,511	(80)	86,431
24	331300	TD Mains 10in to 16in	-	-	-	-	-	-
25	332000	Fire Mains	-	-	(3)	169	(24)	145
26	333000	Services	37,635	-	(164,646)	6,659,801	186,912	6,846,713
27	334100	Meters	32,841	-	(42,405)	1,710,976	(374,853)	1,336,123
28	334200	Meter Installations	4,596	-	(29)	4,596	(29)	4,567
29	335000	Hydrants	26,750	-	(33,680)	1,709,648	(476,035)	1,233,613
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(29,537)	(1,400)
33	340200	Comp & Periph Equip	-	-	(3,424)	74,599	239	74,838
34	341100	Trans Equip Lt Duty Trks	36,484	-	(84,761)	374,008	(291,919)	82,089
35	341200	Trans Equip Hvy Duty Trks	21,027	-	(219)	21,027	(219)	20,808
36	342000	Stores Equipment	-	-	(19)	487	(394)	93
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(6,315)	13,326
38	344000	Laboratory Equipment	-	-	(140)	3,767	(1,535)	2,232
39	345000	Power Operated Equipment	-	-	(1,220)	24,298	(12,043)	12,255
40	346100	Comm Equip Non-Telephone	-	-	(3,189)	30,965	(34,420)	(3,455)
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(17,974)	25,896
42	SUB-TOTAL		\$ 642,311	\$ -	\$ (797,693)	\$ 30,593,099	\$ (6,672,165)	\$ 23,920,934
43	Company As Filed		642,311	-	(701,675)	30,593,099	(6,614,029)	23,979,070
44	Difference		\$ -	\$ -	\$ (96,018)	\$ -	\$ (58,136)	\$ (58,136)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,588	-	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(8,573)	342,925	(112,115)	230,810
8	304200	Struct & Imp P	-	-	(3,865)	231,439	(75,538)	155,901
9	304300	Struct & Imp WT	-	-	(641)	38,357	(7,417)	30,940
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(288)	17,269	(6,452)	10,817
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	-	-	(32,938)	1,307,051	(361,517)	945,534
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	121,276	(64,444)	(222,100)	5,084,794	(2,386,962)	2,697,832
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(1,826)	2,679
18	311500	Pump Equip Other	-	-	(78)	1,764	(668)	1,096
19	320100	WT Equip Non-Media	-	(2,201)	(5,831)	145,313	(447)	144,866
20	330000	Dist Reservoirs & Standpipe	(157)	-	(12,860)	769,777	(174,630)	595,147
21	331001	TD Mains Not Classified By Size	(30,090)	-	(1,297)	11,803,809	(2,528,650)	9,275,159
22	331100	TD Mains 4in & Less	5,020	-	(179,744)	4,718	(359,486)	(354,768)
23	331200	TD Mains 6in to 8in	51,556	-	(1,440)	138,067	(1,520)	136,547
24	331300	TD Mains 10in to 16in	59,875	-	(76)	59,875	(76)	59,799
25	332000	Fire Mains	-	-	(3)	169	(26)	143
26	333000	Services	146,809	-	(165,895)	6,806,610	21,017	6,827,627
27	334100	Meters	1,492	-	(42,958)	1,712,468	(417,811)	1,294,657
28	334200	Meter Installations	70,436	-	(1,634)	75,032	(1,663)	73,369
29	335000	Hydrants	25,747	-	(34,350)	1,735,395	(510,385)	1,225,010
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(30,828)	(2,691)
33	340200	Comp & Periph Equip	-	-	(3,424)	74,599	(3,185)	71,414
34	341100	Trans Equip Lt Duty Trks	5,449	(90,051)	(3,164)	289,406	(205,032)	84,374
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(5,476)	15,551
36	342000	Stores Equipment	-	-	(19)	487	(413)	74
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(7,104)	12,537
38	344000	Laboratory Equipment	-	-	(140)	3,767	(1,674)	2,093
39	345000	Power Operated Equipment	-	-	(1,220)	24,298	(13,263)	11,035
40	346100	Comm Equip Non-Telephone	-	-	(3,189)	30,965	(37,610)	(6,645)
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(20,137)	23,733
42	SUB-TOTAL		\$ 457,413	\$ (156,696)	\$ (735,426)	\$ 30,893,816	\$ (7,250,895)	\$ 23,642,921
43	Company As Filed		457,413	(156,696)	(669,405)	30,893,816	(7,283,434)	23,610,382
44	Difference		-	-	(66,021)	-	32,539	32,539

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,588	-	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(8,573)	342,925	(120,688)	222,237
8	304200	Struct & Imp P	-	-	(3,865)	231,439	(79,403)	152,036
9	304300	Struct & Imp WT	-	-	(641)	38,357	(8,058)	30,299
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(288)	17,269	(6,740)	10,529
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	-	-	(32,938)	1,307,051	(394,455)	912,596
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	127,898	(42,589)	(224,746)	5,170,103	(2,569,119)	2,600,984
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(2,025)	2,480
18	311500	Pump Equip Other	-	-	(78)	1,764	(746)	1,018
19	320100	WT Equip Non-Media	-	-	(5,813)	145,313	(6,260)	139,053
20	330000	Dist Reservoirs & Standpipe	-	-	(12,855)	769,777	(187,485)	582,292
21	331001	TD Mains Not Classified By Size	-	-	(856)	11,803,809	(2,529,506)	9,274,303
22	331100	TD Mains 4in & Less	2,359	-	(179,805)	7,077	(539,291)	(532,214)
23	331200	TD Mains 6in to 8in	6,410	-	(2,176)	144,477	(3,696)	140,781
24	331300	TD Mains 10in to 16in	24,830	-	(1,057)	84,705	(1,134)	83,571
25	332000	Fire Mains	-	-	(3)	169	(29)	140
26	333000	Services	149,589	-	(169,946)	6,956,199	(148,929)	6,807,270
27	334100	Meters	8,349	(622)	(43,066)	1,720,195	(460,255)	1,259,940
28	334200	Meter Installations	6,977	(443)	(1,903)	81,566	(3,124)	78,442
29	335000	Hydrants	9,164	-	(34,753)	1,744,559	(545,138)	1,199,421
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(32,120)	(3,983)
33	340200	Comp & Periph Equip	-	-	(3,424)	74,599	(6,609)	67,990
34	341100	Trans Equip Lt Duty Trks	-	(23,457)	(67,417)	265,949	(248,992)	16,957
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(10,733)	10,294
36	342000	Stores Equipment	-	-	(19)	487	(432)	55
37	343000	Tools Shop Garage Equip	-	-	(790)	19,641	(7,894)	11,747
38	344000	Laboratory Equipment	-	-	(140)	3,767	(1,814)	1,953
39	345000	Power Operated Equipment	-	-	(1,220)	24,298	(14,482)	9,816
40	346100	Comm Equip Non-Telephone	5,943	(78)	(3,521)	36,830	(41,052)	(4,222)
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(22,299)	21,571
42	SUB-TOTAL		\$ 341,519	\$ (67,189)	\$ (808,802)	\$ 31,168,146	\$ (7,992,508)	\$ 23,175,638
43	Company As Filed		341,519	(67,189)	(742,476)	31,168,146	(8,025,910)	23,142,236
44	Difference		\$ -	\$ -	\$ (66,326)	\$ -	\$ 33,402	\$ 33,402

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADD'TS/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,588	-	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	-	-	(8,573)	342,925	(129,262)	213,663
8	304200	Struct & Imp P	-	-	(3,865)	231,439	(83,268)	148,171
9	304300	Struct & Imp WT	-	-	(641)	38,357	(8,698)	29,659
10	304400	Struct & Imp TD	-	-	-	-	-	-
11	304600	Struct & Imp Offices	-	-	(284)	17,269	(7,024)	10,245
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	1,313,894	-	(36,754)	2,620,945	(431,209)	2,189,736
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	370,944	(7,240)	(234,880)	5,533,807	(2,796,758)	2,737,049
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(2,224)	2,281
18	311500	Pump Equip Other	-	-	(78)	1,764	(824)	940
19	320100	WT Equip Non-Media	-	-	(5,813)	145,313	(12,073)	133,240
20	330000	Dist Reservoirs & Standpipe	-	-	(12,855)	769,777	(200,340)	569,437
21	331001	TD Mains Not Classified By Size	-	-	(856)	11,803,809	(2,530,362)	9,273,447
22	331100	TD Mains 4in & Less	417	-	(179,852)	7,494	(719,143)	(711,649)
23	331200	TD Mains 6in to 8in	56,014	-	(2,301)	200,491	(5,997)	194,494
24	331300	TD Mains 10in to 16in	40,281	-	(1,429)	124,986	(2,562)	122,424
25	332000	Fire Mains	-	-	(3)	169	(31)	138
26	333000	Services	112,428	-	(173,285)	7,068,627	(322,214)	6,746,413
27	334100	Meters	13,095	(336)	(43,344)	1,732,954	(503,263)	1,229,691
28	334200	Meter Installations	42,539	(19,823)	(2,107)	104,282	14,593	118,875
29	335000	Hydrants	31,818	-	(35,032)	1,776,377	(580,170)	1,196,207
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(33,411)	(5,274)
33	340200	Comp & Periph Equip	9,818	(48,958)	(2,868)	35,459	39,481	74,940
34	341100	Trans Equip Lt Duty Trks	-	-	(66,487)	265,949	(315,479)	(49,530)
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(15,990)	5,037
36	342000	Stores Equipment	-	-	(19)	487	(451)	36
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(8,683)	10,958
38	344000	Laboratory Equipment	-	-	(140)	3,767	(1,954)	1,813
39	345000	Power Operated Equipment	-	-	(1,220)	24,298	(15,702)	8,596
40	346100	Comm Equip Non-Telephone	-	-	(3,793)	36,830	(44,846)	(8,016)
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(24,462)	19,408
42	SUB-TOTAL		\$ 1,991,248	\$ (76,357)	\$ (826,178)	\$ 33,053,037	\$ (8,742,329)	\$ 24,340,708
43	Company As Filed		2,009,829	(76,357)	(752,409)	33,101,618	(8,778,319)	24,323,299
44	Difference		\$ (18,581)	\$ -	\$ (73,769)	\$ (18,581)	\$ 35,990	\$ 17,409

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 4, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 4, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	(242)	-	1,346	242	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	5,465,852	-	(56,990)	5,808,777	(186,252)	5,622,525
8	304200	Struct & Imp P	(6,085)	-	(3,810)	225,354	(87,078)	138,276
9	304300	Struct & Imp WT	-	-	(641)	38,357	(9,339)	29,018
10	304400	Struct & Imp TD	(441)	-	-	(441)	-	(441)
11	304600	Struct & Imp Offices	-	-	(284)	17,269	(7,308)	9,961
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	(65,098)	(4,125)	(64,853)	2,551,722	(491,937)	2,059,785
15	310100	Power Generation Equip Other	-	-	-	-	-	-
16	311200	Pump Equip Electric	91,110	(560,818)	(244,122)	5,064,099	(2,480,062)	2,584,037
17	311300	Pump Equip Diesel	-	-	(199)	4,505	(2,423)	2,082
18	311500	Pump Equip Other	-	-	(78)	1,764	(902)	862
19	320100	WT Equip Non-Media	4,867,781	-	(68,921)	5,013,094	(80,994)	4,932,100
20	330000	Dist Reservoirs & Standpipe	-	(9,481)	(12,849)	760,296	(203,708)	556,588
21	331001	TD Mains Not Classified By Size	1,031,492	-	(5,465)	12,835,301	(2,535,828)	10,299,473
22	331100	TD Mains 4in & Less	6,710	(6,925)	(179,854)	7,279	(892,072)	(884,793)
23	331200	TD Mains 6in to 8in	103,487	-	(3,586)	303,978	(9,583)	294,395
24	331300	TD Mains 10in to 16in	70,921	-	(2,233)	195,907	(4,795)	191,112
25	332000	Fire Mains	-	-	(3)	169	(34)	135
26	333000	Services	173,701	-	(177,626)	7,242,328	(499,840)	6,742,488
27	334100	Meters	8,717	(517)	(43,571)	1,741,154	(546,317)	1,194,837
28	334200	Meter Installations	31,113	(450)	(2,941)	134,945	12,102	147,047
29	335000	Hydrants	45,459	-	(35,908)	1,821,836	(616,078)	1,205,758
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(1,292)	28,137	(34,703)	(6,566)
33	340200	Comp & Periph Equip	-	-	(1,628)	35,459	37,854	73,313
34	341100	Trans Equip Lt Duty Trks	7,334	(48,120)	(60,114)	225,163	(327,473)	(102,310)
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(21,246)	(219)
36	342000	Stores Equipment	-	-	(19)	487	(470)	17
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(9,473)	10,168
38	344000	Laboratory Equipment	-	-	(140)	3,767	(2,094)	1,673
39	345000	Power Operated Equipment	137,370	-	(3,587)	161,668	(19,289)	142,379
40	346100	Comm Equip Non-Telephone	102,294	-	(6,864)	139,124	(51,710)	87,414
41	346300	Comm Equip Other	-	-	(2,163)	43,870	(26,625)	17,245
42	SUB-TOTAL		\$ 12,071,717	\$ (630,678)	\$ (985,785)	\$ 44,524,076	\$ (9,097,435)	\$ 35,426,641
43	Company As Filed		12,071,717	(630,678)	(342,453)	44,542,657	(9,120,772)	35,421,885
44	Difference		\$ -	\$ -	\$ (643,332)	\$ (18,581)	\$ 23,337	\$ 4,756

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 20,086	\$ -	\$ 20,086
2	302000	Franchises	-	-	-	1,346	242	1,588
3	303200	Land & Land Rights SS	-	-	-	11,651	-	11,651
4	303300	Land & Land Rights P	-	-	-	44,957	-	44,957
5	303500	Land & Land Rights TD	-	-	-	-	-	-
6	303600	Land & Land Rights AG	-	-	-	-	-	-
7	304100	Struct & Imp SS	1,813,754	(1,551)	(150,028)	7,620,980	(334,729)	7,286,251
8	304200	Struct & Imp P	(533)	-	(3,755)	224,821	(90,833)	133,988
9	304300	Struct & Imp WVT	52,510	-	(751)	90,867	(10,090)	80,777
10	304400	Struct & Imp TD	-	-	-	(441)	-	(441)
11	304600	Struct & Imp Offices	-	-	(281)	17,269	(7,589)	9,680
12	304800	Struct & Imp Misc	-	-	-	-	-	-
13	305000	Collect & Impounding	-	-	-	-	-	-
14	307000	Wells & Springs	35,479	-	(64,341)	2,587,201	(556,278)	2,030,923
15	310100	Power Generation Equip Other	36,044	-	(187)	36,044	(187)	35,857
16	311200	Pump Equip Electric	136,011	(42,766)	(221,295)	5,157,344	(2,658,590)	2,498,754
17	311300	Pump Equip Diesel	-	6,672	(199)	11,177	(9,295)	1,882
18	311500	Pump Equip Other	167,932	-	(1,007)	169,696	(1,908)	167,788
19	320100	WT Equip Non-Media	1,333,510	-	(199,601)	6,346,604	(280,595)	6,066,009
20	330000	Dist Reservoirs & Standpipe	-	(233)	(12,697)	760,063	(216,172)	543,891
21	331001	TD Mains Not Classified By Size	219,719	-	(16,792)	13,055,020	(2,552,620)	10,502,400
22	331100	TD Mains 4in & Less	1,222	(7,887)	(179,845)	614	(1,064,030)	(1,063,416)
23	331200	TD Mains 6in to 8in	105,412	-	(5,096)	409,390	(14,679)	394,711
24	331300	TD Mains 10in to 16in	56,790	-	(3,265)	252,697	(8,060)	244,637
25	332000	Fire Mains	-	-	(3)	169	(37)	132
26	333000	Services	107,600	(7,185)	(180,676)	7,342,743	(673,331)	6,669,412
27	334100	Meters	16,123	(1,194)	(43,850)	1,756,083	(588,973)	1,167,110
28	334200	Meter Installations	12,345	-	(3,649)	147,290	8,453	155,743
29	335000	Hydrants	13,843	-	(36,551)	1,835,679	(652,629)	1,183,050
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	(7,350)	(1,277)	20,787	(28,630)	(7,843)
33	340200	Comp & Periph Equip	5,978	-	(1,637)	41,437	36,217	77,654
34	341100	Trans Equip Lt Duty Trks	15	-	(56,294)	225,178	(383,768)	(158,590)
35	341200	Trans Equip Hvy Duty Trks	-	-	(5,257)	21,027	(26,503)	(5,476)
36	342000	Stores Equipment	-	(345)	(18)	142	(143)	(1)
37	343000	Tools, Shop, Garage Equip	-	-	(790)	19,641	(10,262)	9,379
38	344000	Laboratory Equipment	(2,026)	(134)	(130)	1,607	(2,090)	(483)
39	345000	Power Operated Equipment	218	-	(8,126)	161,886	(27,415)	134,471
40	346100	Comm Equip Non-Telephone	24,011	-	(14,415)	163,135	(66,125)	97,010
41	346300	Comm Equip Other	-	(42,532)	(2,075)	1,338	13,831	15,169
42	SUB-TOTAL		\$ 4,135,957	\$ (104,505)	\$ (1,213,888)	\$ 48,555,528	\$ (10,206,818)	\$ 38,348,710
43	Company As Filed		4,135,957	(181,177)	(1,037,192)	48,497,437	(10,120,082)	38,377,355
44	Difference		\$ -	\$ 76,672	\$ (176,696)	\$ 56,091	\$ (86,736)	\$ (28,645)
						RUCO TY As Calculated	\$ 48,555,528	\$ (10,206,818)
						RUCO Adjustments	(58,091)	86,736
						Co. TY Adjustments To Book	395,948	(349,166)
						Co. Variance To GL		(37,882)
						Co. Variance To GL		(7,358)
						Total	\$ 48,893,385	\$ (10,514,488)
						Co. As Filed	48,893,385	(10,514,488)
						Difference	-	-
						Adj #1 - Difference In Computing Acc. Dep	\$ -	\$ (11,065)
						Adj #3 - Conforming To Stf DH 4.3	76,672	(76,531)
						Adj #4 - Conforming To Stf GB 9.3	(18,581)	860
						Total RUCO Adjustments	\$ 58,091	\$ (86,736)
						RUCO As Adjusted	\$ 48,951,476	\$ (10,601,224)
						RUCO Adjustments	58,091	(86,736)
						Co. As Filed	\$ 48,893,385	\$ (10,514,488)
						Co. Adjustments	395,948	(394,406)
						Co. Computed Acc. Dep.	\$ 48,497,437	\$ (10,120,082)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 6, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 6, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 56,510	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	56,510	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 24,906	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	24,906	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 480,140	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(6,224)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (486,364)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (486,364)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 703,217	\$ (13,569)	\$ 689,648	12.00	\$ 8,275,776
2	Purchased Water	(2,690)	-	(2,690)	(37.17)	99,987
3	Fuel & Power	830,074	-	830,074	32.42	26,912,078
4	Chemicals	227,889	-	227,889	18.06	4,114,536
5	Management Fees	999,903	(12,035)	987,868	10.40	10,273,824
6	Group Insurance	191,120	-	191,120	(14.08)	(2,691,333)
7	Pensions	137,699	-	137,699	45.00	6,196,455
8	Insurance Other Than Group	58,622	-	58,622	(68.27)	(4,002,165)
9	Customer Accounting	133,476	-	133,476	19.76	2,637,194
10	Rents	14,331	-	14,331	(10.50)	(150,476)
11	Depreciation & Amorization	1,323,541	(1,323,541)	-	-	-
12	Other Operating Expenses	575,155	(34,787)	540,367	30.00	16,211,020
	Taxes:					
13	Property Taxes	179,896	35,837	215,733	15.07	3,252,089
14	Taxes Other Than Income	65,832	-	65,832	212.50	13,989,300
15	Income Tax	1,308,459	(1,654,193)	(345,734)	28.75	(9,939,854)
16	Interest Expense	-	1,155,483	1,155,483	106.52	123,082,098
17	Total Appropriate Operating Expenses	<u>\$ 6,746,524</u>	<u>\$ (1,846,805)</u>	<u>\$ 4,899,718</u>		<u>\$ 198,260,530</u>
18	Expense Lag	Line 17, Col. (E) / (C)	40.46			
19	Revenue Lag	Company Response To RUCO DR 8	40.00			
20	Net Lag	Line 19 - Line 18	(0.46)			
21	RUCO Adjusted Expenses	Col. (C), Line 17	<u>\$ 4,899,718</u>			
22	Cash Working Capital	Line 20 X Line 21 / 365 Days	<u>(6,224)</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	480,140			
24	Difference	Line 22 - Line 23	<u>\$ (486,364)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 24	<u><u>\$ (486,364)</u></u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'MTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 5,661,030	\$ -	\$ 5,661,030	\$ 3,375,778	\$ 9,036,808
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	40,401	-	40,401	-	40,401
4	TOTAL OPERATING REVENUE	<u>\$ 5,701,431</u>	<u>\$ -</u>	<u>\$ 5,701,431</u>	<u>\$ 3,375,778</u>	<u>\$ 9,077,209</u>
	Operating Expenses:					
5	Labor	\$ 703,217	\$ (13,569)	\$ 689,648	\$ -	\$ 689,648
6	Purchased Water	(2,690)	-	(2,690)	-	(2,690)
7	Fuel & Power	830,074	-	830,074	-	830,074
8	Chemicals	227,889	-	227,889	-	227,889
9	Waste Disposal	4,391	313	4,704	-	4,704
10	Management Fees	999,903	(12,035)	987,868	-	987,868
11	Group Insurance	191,120	-	191,120	-	191,120
12	Pensions	137,699	-	137,699	-	137,699
13	Regulatory Expense	33,802	(9,737)	24,065	-	24,065
14	Insurance Other Than Group	58,622	-	58,622	-	58,622
15	Customer Accounting	133,476	-	133,476	-	133,476
16	Rents	14,331	-	14,331	-	14,331
17	General Office Expense	57,226	-	57,226	-	57,226
18	Miscellaneous	232,408	(1,299)	231,109	-	231,109
19	Maintenance Expense	247,328	-	247,328	-	247,328
20	Depreciation & Amortization	1,323,541	4,083	1,327,624	-	1,327,624
21	General Taxes - Property Taxes	179,896	35,837	215,733	-	215,733
22	General Taxes - Other	65,832	-	65,832	-	65,832
23	Income Tax	(324,059)	(21,675)	(345,734)	1,303,012	957,278
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 5,114,006</u>	<u>\$ (18,082)</u>	<u>\$ 5,095,924</u>	<u>\$ 1,303,012</u>	<u>\$ 6,398,936</u>
26	OPERATING INCOME (LOSS)	<u>\$ 587,425</u>	<u>\$ 18,082</u>	<u>\$ 605,507</u>	<u>\$ 2,072,765</u>	<u>\$ 2,678,273</u>

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) DEPRECIATN & AMORTIZN	(D) ADJMT NO. 2 RATE CASE EXPENSE	(E) ADJMT NO. 3 WASTE DISPOSAL	(F) ADJMT NO. 4 AIP EXPENSE	(G) ADJMT NO. 5 LABOR EXPENSE	(H) ADJMT NO. 6 MISC. EXPENSE	(I) ADJMT NO. 7 INCOME TAX	(J) RUCO AS ADJTD
1	Metered Water Revenues	\$ 5,661,030	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,661,030
2	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-
3	Other Water Revenues	40,401	-	-	-	-	-	-	-	-	40,401
4	TOTAL OPERATING REV.	\$ 5,701,431	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,701,431
	Operating Expenses:										
5	Labor	\$ 703,217	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (13,569)	\$ -	\$ -	\$ 689,648
6	Purchased Water	(2,690)	-	-	-	-	-	-	-	-	(2,690)
7	Fuel & Power	830,074	-	-	-	-	-	-	-	-	830,074
8	Chemicals	227,889	-	-	-	-	-	-	-	-	227,889
9	Waste Disposal	4,391	-	-	-	313	-	-	-	-	4,704
10	Management Fees	999,903	-	-	-	-	(12,035)	-	-	-	987,868
11	Group Insurance	191,120	-	-	-	-	-	-	-	-	191,120
12	Pensions	137,699	-	-	-	-	-	-	-	-	137,699
13	Regulatory Expense	33,802	-	-	(9,737)	-	-	-	-	-	24,065
14	Insurance Other Than Group	58,622	-	-	-	-	-	-	-	-	58,622
15	Customer Accounting	133,476	-	-	-	-	-	-	-	-	133,476
16	Rents	14,331	-	-	-	-	-	-	-	-	14,331
17	General Office Expense	57,226	-	-	-	-	-	-	-	-	57,226
18	Miscellaneous	232,408	-	-	-	-	-	-	(1,299)	-	231,109
19	Maintenance Expense	247,328	-	-	-	-	-	-	-	-	247,328
20	Depreciation & Amortization	1,323,541	-	4,083	-	-	-	-	-	-	1,327,624
21	General Taxes - Property Taxes	179,896	35,837	-	-	-	-	-	-	-	215,733
22	General Taxes - Other	65,832	-	-	-	-	-	-	-	-	65,832
23	Income Tax	(324,059)	-	-	-	-	-	-	-	(21,675)	(345,734)
24	Rounding	-	-	-	-	-	-	-	-	-	-
25	TOTAL OPERATING EXP.	\$ 5,114,006	\$ 35,837	\$ 4,083	\$ (9,737)	\$ 313	\$ (12,035)	\$ (13,569)	\$ (1,299)	\$ (21,675)	\$ 5,095,924
26	OPERATING INC. (LOSS)	\$ 587,425									\$ 605,507

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM And Schedule RLM-10
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 5,701,431	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	5,701,431	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,077,209	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 20,480,071	
5	Average Annual Operating Revenues	Line 4 / 3	6,826,690	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 13,653,381
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ (50,858)	
8	10% Of CWIP	Line 7 X 10%		\$ (5,086)
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 13,648,295
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,139,108	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	6.87%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	6.87%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 215,733
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		179,896
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 35,837
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 35,837

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 20,086	0.00%	\$ -
2	302000	Franchises	1,346	0.00%	-
3	303200	Land & Land Rights SS	11,651	0.00%	-
4	303300	Land & Land Rights P	44,957	0.00%	-
5	303500	Land & Land Rights TD	-	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	7,620,980	2.50%	190,525
8	304200	Struct & Imp P	224,821	1.67%	3,755
9	304300	Struct & Imp WT	90,867	1.67%	1,517
10	304400	Struct & Imp TD	(441)	1.67%	(7)
11	304600	Struct & Imp Offices	17,269	1.67%	288
12	304800	Struct & Imp Misc	-	2.50%	-
13	305000	Collect & Impounding	-	0.00%	-
14	307000	Wells & Springs	2,587,201	2.52%	65,197
15	310100	Power Generation Equip Other	36,044	4.42%	1,593
16	311200	Pump Equip Electric	5,157,344	4.42%	227,955
17	311300	Pump Equip Diesel	11,177	4.42%	494
18	311500	Pump Equip Other	169,696	4.42%	7,501
19	320100	WT Equip Non-Media	6,346,604	4.00%	253,864
20	330000	Dist Reservoirs & Standpipe	760,063	1.67%	12,693
21	331001	TD Mains Not Classified By Size	13,055,020	1.53%	199,742
22	331100	TD Mains 4in & Less	614	1.53%	9
23	331200	TD Mains 6in to 8in	409,390	1.53%	6,264
24	331300	TD Mains 10in to 16in	252,697	1.53%	3,866
25	332000	Fire Mains	169	1.53%	3
26	333000	Services	7,342,743	2.48%	182,100
27	334100	Meters	1,756,083	2.51%	44,078
28	334200	Meter Installations	147,290	2.51%	3,697
29	335000	Hydrants	1,835,679	2.00%	36,714
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	0.00%	-
32	340100	Office Furniture & Equip	20,787	4.59%	954
33	340200	Comp & Periph Equip	41,437	4.59%	1,902
34	341100	Trans Equip Lt Duty Trks	225,178	25.00%	56,295
35	341200	Trans Equip Hvy Duty Trks	21,027	25.00%	5,257
36	342000	Stores Equipment	142	3.91%	6
37	343000	Tools,Shop,Garage Equip	19,641	4.02%	790
38	344000	Laboratory Equipment	1,607	3.71%	60
39	345000	Power Operated Equipment	161,886	5.02%	8,127
40	346100	Comm Equip Non-Telephone	163,135	10.30%	16,803
41	346300	Comm Equip Other	1,338	4.93%	66
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 48,555,528		\$ 1,332,104
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	390,490		87,107
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	5,456		247
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 1,419,458
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			5,841
47		AMORITIZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			(515)
49		AMORTIZATION OF REGULATORY CIAC			(97,158)
50		Rounding			(2)
51	TOTAL DEPRECIATION EXPENSE				\$ 1,327,624
52	Company As Filed				1,323,541
53	Difference				\$ 4,083
54	RUCO Adjustment (See RLM-7, Column (C))				\$ 4,083

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	<u>\$ 612,000</u>	<u>\$ (187,735)</u>	<u>\$ 424,265</u>
2	Allocation Factor (See NOTE Below)	11.7965%		17.0164%
3	Sun City West Water District (Line 1 X Line 2)	<u>\$ 72,195</u>	<u>\$ -</u>	<u>\$ 72,195</u>
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			<u>\$ 24,065</u>
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			<u>\$ 33,802</u>
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			<u>\$ (9,737)</u>
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			<u><u>\$ (9,737)</u></u>

NOTE

	4-Factor Allocation	Company As Filed		RUCO As Adjusted	
	Districts Included In This Filing				
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasu Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	<u>69.3243%</u>	<u>\$ 424,265</u>	<u>100.0000%</u>	<u>\$ 424,265</u>
	Districts NOT Included In This Filing				
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		<u>100.0000%</u>	<u>\$ 612,000</u>		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	8.3198%
3	Sun City West Water District	Lines 1 X 2	<u>\$ 40,118</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (12,035)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (12,035)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		RUCO ADJUSTMENTS			RUCO AS ADJUSTED
		ALLOCABLE TOTAL	ALLOC'N 4-FACTOR	DISTRICT TOTAL	
1	Sun City West Water Direct Miscellaneous Account (RLM-12, Pg, Ln 103)	\$ (166.53)	100.00%	\$ (167)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	8.3198%	\$ (1,132)	
3	TOTAL				<u>\$ (1,299)</u>
4	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (See RLM-7, Column (H))				<u>\$ (1,299)</u>

NOTE

4-Factor Allocation

5	Sun City West Water District	8.3198%
6	Paradise Valley Water District	7.6863%
7	Tubac Water District	0.7254%
8	Agua Fria Water District	23.0946%
9	Havasupai Water District	1.3850%
10	Mohave Water District	7.8288%
11	Mohave Wastewater District	1.0290%

References:

Column (A): Workpapers Exhibit A (880) Pages 1 To 18, (921) Pages 1 To 14, (923) Page 1, And (930) Page 1
Column (B): Company Workpapers
Column (C): Column (A) X Column (B)
Column (D): Sums Of Column (C)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAIELLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	ANGEL STEVENS	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	JAMES ISHMAEL	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BERT L REYNOLDS	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	BRIAN BIESEMEYER	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	ANGEL STEVENS	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	NON-Catered Food & Beverages
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	In-house training/seminars
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAN	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	NON-Catered Food & Beverages
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	External training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	In-house training/seminars
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	SERVICES	NON-Catered Food & Beverages
67	PCard Undistributed	10.02	QUIZNOS	ANDREW C MARTINEZ	Landscaping
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEWAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEWAY STORE	ROY PEREZ JR	Catering/works catering
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	NON-Catered Food & Beverages
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	Event organization services
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEBY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		<u>\$ 13,607.91</u>			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION		
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES							
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES							
99	M & S Oper TD	18.94	Ice Wagon The-PO/REMIT Clearwater Beverages LLC RED ROBIN NO SAFEWAY STORE	SERVICE SALE ORDER# 800 PAUL D TAYLOR ROBERT L CRON	Kitchen/Cleaning/Toiletries NON-Catered Food & Beverages NON-Catered Food & Beverages NON-Catered Food & Beverages		
100	M & S Oper SS	59.03					
101	Misc Oper PP	57.63					
102	Misc Oper PP	30.93					
103	Total	\$ 166.53					
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES							
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT LONG JOHN SILV Peavey Performance Systems SUBWAY #10469 THE HOME DEPOT	03204265 NEIL J MEYER 1004289 NEIL J MEYER LEE F HUDDLESTON	Service Awards and Premiums NON-Catered Food & Beverages Service Awards and Premiums NON-Catered Food & Beverages Event organization services		
105	Training AG	5.39					
106	Safety Incentive	132.00					
107	Training AG	6.26					
108	Misc Oper TD	33.98					
109	Total	\$ 313.29					
TUBAC WATER DISTRICT MISCEALLOUS EXPENSES							
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012 United Way of the Nat Capital United Way of the Nat Capital	ROBERT L CRON SHIPPER# 6R29A2 SHIPPER# 6R29A2	NON-Catered Food & Beverages Mail/parcel delivery Mail/parcel delivery		
111	Overnight Shipping AG	20.82					
112	Overnight Shipping AG	(20.82)					
113	Total	\$ 17.12					
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES							
114	Brochures and Handouts	\$ 1,788.00	AZ University Clearwater Beverages LLC CSI CRESTLINE CO INC Ice Wagon The-PO/REMIT	Project WET Sponsorship SALE ORDER# 800 SALLY L CECCARELLI WOLF SERVICE	Sponsoring NON-Catered Food & Beverages Service Awards and Premiums Kitchen/Cleaning/Toiletries		
115	Misc Oper SS	157.41					
116	Water Res Conservation	317.39					
117	M & S Oper TD	44.22					
118	Total	\$ 2,307.02					
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES							
119	No Adjustment	\$ -					
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES							
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT DENNY'S INC Ferguson Enterprises Inc #675 Ferguson Enterprises Inc-#602-	03204265 CHAD E GEBOW 7202007 CUST# 605937	Service Awards and Premiums NON-Catered Food & Beverages NON-Catered Food & Beverages NON-Catered Food & Beverages		
121	M & S Oper TD	22.80					
122	M & S Oper TD	133.56					
123	M & S Oper TD	50.00					
124	Total	\$ 342.02					
MOHAVE WASTEAWATER DISTRICT MISCELLANEOUS EXPENSES							
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed		
126	Total	\$ 26.92					

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 259,773
	LESS:		
2	Arizona State Tax	Line 11	(62,413)
3	Interest Expense	Note (A) Line 20	1,155,483
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (833,297)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (283,321)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 259,773
	LESS:		
8	Interest Expense	Note (A) Line 20	1,155,483
9	State Taxable Income	Line 7 - Line 8	\$ (895,710)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (62,413)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (283,321)
13	State Income Tax Expense	Line 11	(62,413)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (345,734)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(324,059)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ (21,675)
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ (21,675)

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 38,261,042
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,155,483

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITAL RATIO	(B) COST	(C) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u><u>7.00%</u></u>

References:

Columns (A) Thru (F): Testimony, WAR

TUBAC WATER DISTRICT

TABLE OF CONTENTS TO RLM SCHEDULES

SCH. NO.	PAGE NO.	TITLE
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RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 5 - ANNUAL INCENTIVE PAY EXPENSE
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RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAX EXPENSE
RLM-14	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 1,527,454	\$ 1,433,161
2	Adjusted Operating Income (Loss)	\$ (38,553)	\$ (60,285)
3	Current Rate Of Return (L2 / L1)	-2.52%	-4.21%
4	Required Operating Income (L5 X L1)	\$ 128,306	\$ 100,321
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 166,859	\$ 160,607
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6674	1.3076
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 278,214	\$ 210,004
9	Adjusted Test Year Revenue	\$ 426,898	\$ 426,900
10	Proposed Annual Revenue (L8 + L9)	\$ 705,112	\$ 636,904
11	Required Percentage Increase In Revenue (L8 / L9)	65.17%	49.19%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.2352			
3	Subtotal (L1 - L2)	0.7648			
4	Revenue Conversion Factor (L1 / L3)	1.3076			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	17.7940%			
9	Effective Federal Income Tax Rate (L7 X L8)	16.5541%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	23.5221%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 100,321			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	(60,285)			
13	Required Increase In Operating Income (L11 - L12)		\$ 160,607		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 17,544			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(31,854)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 49,397		
17	Total Required Increase In Revenue (L13 + L16)		\$ 210,004		
				RUCO	
CALCULATION OF INCOME TAX:				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 636,904	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			519,039	
20	Synchronized Interest (Col. (C), L37)			43,281	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 74,583	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 5,197
24	Fed. Taxable Income (L21 - L23)			\$ 69,386	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			4,847	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			-	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			-	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 12,347
31	Combined Federal And State Income Tax (L23 + L30)				\$ 17,544
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (31,854)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 49,397
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				17.79%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 1,433,161	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 43,281	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 2,484,020</u>	<u>\$ 1,550</u>	<u>\$ 2,485,570</u>
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ (20,266)	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	17
7	NET CIAC (L6 + L7)	<u>\$ (178)</u>	<u>\$ -</u>	<u>\$ (178)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ (51,122)	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ (24,455)	\$ 19,254
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 1,527,454</u>	<u>\$ (94,293)</u>	<u>\$ 1,433,161</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 AIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	-	-	-	-	-	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 2,484,020	\$ 1,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,485,570
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ -	\$ (20,266)	\$ -	\$ -	\$ -	\$ -	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	-	-	-	-	-	17
7	NET CIAC (L5 + L6)	\$ (178)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (178)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ -	\$ -	\$ -	\$ -	\$ (51,122)	\$ -	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (24,455)	\$ 19,254
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 1,527,454	\$ 1,550	\$ (20,266)	\$ -	\$ -	\$ (51,122)	\$ (24,455)	\$ 1,433,161

References:

- Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Intentionally Left Blank
Column (E): Adjustment No. 4 - Intentionally Left Blank
Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED DECEMBER 31, 2001

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PRIOR DECISION NO. 67093 - ADJUSTED	(B) GROSS PLANT	(C) ACCUMULATED DEPRECIATION	(D) PLANT ADJUSTMENT	(E) RUCO ADJUSTED PRIOR TEST YEAR ACC. DEP. ADJUSTMENT	(F) GROSS PLANT	(G) ACCUMULATED DEPRECIATION
			DEP. RATE						
1	301000	Organization	0.00%	\$ 567	\$ -	\$ -	\$ -	\$ 567	\$ -
2	302000	Franchises	0.00%	2,030	-	-	-	2,030	-
3	303200	Land & Land Rights SS	0.00%	20,414	-	-	-	20,414	-
4	303300	Land & Land Rights P	0.00%	50	-	-	-	50	-
5	303400	Land & Land Rights WT	0.00%	50	-	-	-	50	-
6	303500	Land & Land Rights TD	0.00%	539	-	-	-	539	-
7	303600	Land & Land Rights AG	0.00%	2,755	-	-	-	2,755	-
8	304100	Struct & Imp SS	2.40%	19,992	(4,183)	-	-	19,992	(4,183)
9	304200	Struct & Imp P	1.94%	14,608	(7,906)	-	-	14,608	(7,906)
10	304300	Struct & Imp WT	0.00%	-	-	-	-	-	-
11	304400	Struct & Imp TD	1.92%	156	(70)	-	-	156	(70)
12	304600	Struct & Imp Offices	2.89%	498	(78)	-	-	498	(78)
13	304800	Struct & Imp Misc	0.00%	-	-	-	-	-	-
14	305000	Collect & Impounding	0.00%	-	-	-	-	-	-
15	307000	Wells & Springs	3.08%	180,979	(76,797)	-	-	180,979	(76,797)
16	310100	Power Generation Equip Other	4.24%	-	-	-	-	-	-
17	311200	Pump Equip Electric	4.24%	241,749	(102,255)	-	-	241,749	(102,255)
18	311300	Pump Equip Diesel	4.42%	879	(88)	-	-	879	(88)
19	311500	Pump Equip Other	4.24%	42,994	(10,466)	-	-	42,994	(10,466)
20	320100	WT Equip Non-Media	4.00%	505	(104)	-	-	505	(104)
21	330000	Dist Reservoirs & Standpipe	1.62%	142,420	(28,084)	-	-	142,420	(28,084)
22	331001	TD Mains Not Classified By Size	1.97%	-	-	-	-	-	-
23	331100	TD Mains 4in & Less	1.97%	884,097	(236,291)	-	-	884,097	(236,291)
24	331200	TD Mains 6in to 8in	1.97%	-	-	-	-	-	-
25	331300	TD Mains 10in to 16in	2.34%	-	-	-	-	-	-
26	333000	Services	2.45%	272,942	(55,162)	-	-	272,942	(55,162)
27	334100	Meters	2.42%	87,950	(21,151)	-	-	87,950	(21,151)
28	334200	Meter Installations	2.42%	-	-	-	-	-	-
29	335000	Hydrants	1.97%	24,189	(1,366)	-	-	24,189	(1,366)
30	339100	Other P/E Intangible	0.00%	-	-	-	-	-	-
31	339500	Other P/E TD	0.00%	-	-	-	-	-	-
32	340100	Office Furniture & Equip	3.28%	11,451	(2,029)	-	-	11,451	(2,029)
33	340200	Comp & Periph Equip	20.00%	9,435	(6,583)	-	-	9,435	(6,583)
34	341100	Trans Equip Lt Duty Trks	25.00%	17,166	(13,302)	-	-	17,166	(13,302)
35	341200	Trans Equip Hvy Duty Trks	25.00%	-	-	-	-	-	-
36	342000	Stores Equipment	4.00%	3,418	(1,044)	-	-	3,418	(1,044)
37	343000	Tools Shop, Garage Equip	3.42%	8,161	(1,162)	-	-	8,161	(1,162)
38	344000	Laboratory Equipment	0.00%	-	-	-	-	-	-
39	345000	Power Operated Equipment	4.64%	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	5.03%	2,461	(822)	-	-	2,461	(822)
41	346300	Comm Equip Other	4.93%	659	(134)	-	-	659	(134)
42	SUB-TOTAL			\$ 1,993,114	\$ (569,077)	\$ -	\$ -	\$ 1,993,114	\$ (569,077)
43	Company As Filed			\$ 1,993,114	\$ (569,077)	\$ -	\$ -	\$ 1,993,114	\$ (569,077)
44	Difference			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:
Columns (A) (B) (C): Company Schedule B-2
Columns (D) (E): See Testimony, RLM
Column (F): Column (B) + Column (D)
Column (G): Column (C) + Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	539	-	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(480)	19,992	(4,663)	15,329
9	304200	Struct & Imp P	-	-	(283)	14,608	(8,189)	6,419
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(73)	83
12	304600	Struct & Imp Offices	-	-	(14)	498	(92)	406
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(82,371)	98,608
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	28,825	-	(10,301)	270,574	(112,556)	158,018
18	311300	Pump Equip Diesel	-	-	(39)	879	(127)	752
19	311500	Pump Equip Other	-	-	(1,823)	42,994	(12,289)	30,705
20	320100	WT Equip Non-Media	-	-	(20)	505	(124)	381
21	330000	Dist Reservoirs & Standpipe	-	-	(2,307)	142,420	(30,391)	112,029
22	331001	TD Mains Not Classified By Size	75,438	-	(62)	75,438	(62)	75,376
23	331100	TD Mains 4in & Less	-	-	(17,417)	884,097	(253,708)	630,389
24	331200	TD Mains 6in to 8in	-	-	-	-	-	-
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	19,290	-	(6,816)	292,232	(61,978)	230,254
27	334100	Meters	270	-	(2,129)	88,220	(23,280)	64,940
28	334200	Meter Installations	644	-	(1)	644	(1)	643
29	335000	Hydrants	2,330	-	(478)	26,519	(1,844)	24,675
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(376)	11,451	(2,405)	9,046
33	340200	Comp & Periph Equip	-	-	(1,887)	9,435	(8,470)	965
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(17,593)	(427)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	(137)	3,418	(1,181)	2,237
37	343000	Tools,Shop,Garage Equip	-	-	(279)	8,161	(1,441)	6,720
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(946)	1,515
41	346300	Comm Equip Other	-	-	(32)	659	(166)	493
42	SUB-TOTAL		\$ 126,797	\$ -	\$ (54,875)	\$ 2,119,911	\$ (623,952)	\$ 1,495,959
43	Company As Filed		126,797	-	(55,006)	2,119,911	(624,490)	1,495,421
44	Difference		\$ -	\$ -	\$ 131	\$ -	\$ 538	\$ 538

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 1, Column (F) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 1, Column (G) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJ.MTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	539	-	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(480)	19,992	(5,143)	14,849
9	304200	Struct & Imp P	-	-	(283)	14,608	(8,472)	6,136
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	155	(77)	79
12	304500	Struct & Imp Offices	-	-	(14)	498	(106)	392
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(87,945)	93,034
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	-	-	(11,472)	270,574	(124,028)	146,546
18	311300	Pump Equip Diesel	-	-	(37)	879	(164)	715
19	311500	Pump Equip Other	-	-	(1,823)	42,994	(14,112)	28,882
20	320100	WT Equip Non-Media	-	-	(20)	505	(144)	361
21	330000	Dist Reservoirs & Standpipe	-	-	(2,307)	142,420	(32,698)	109,722
22	331001	TD Mains Not Classified By Size	1,393	-	(1,508)	76,831	(1,570)	75,261
23	331100	TD Mains 4in & Less	-	-	(17,417)	884,097	(271,124)	612,973
24	331200	TD Mains 6in to 8in	892	-	(4)	892	(4)	888
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	2,510	-	(7,162)	294,742	(69,141)	225,601
27	334100	Meters	-	-	(2,135)	88,220	(25,415)	62,805
28	334200	Meter Installations	1,467	-	(45)	2,111	(46)	2,065
29	335000	Hydrants	-	-	(522)	26,519	(2,367)	24,152
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(376)	11,451	(2,781)	8,670
33	340200	Comp & Periph Equip	-	-	(1,887)	9,435	(10,357)	(922)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(21,884)	(4,718)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	(137)	3,418	(1,318)	2,100
37	343000	Tools, Shop, Garage Equip	-	-	(279)	8,161	(1,720)	6,441
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(1,070)	1,391
41	346300	Comm Equip Other	-	-	(32)	659	(199)	460
42	SUB-TOTAL		\$ 6,262	\$ -	\$ (57,934)	\$ 2,126,173	\$ (681,885)	\$ 1,444,288
43	Company As Filed		6,262	-	(57,937)	2,126,173	(682,427)	1,443,746
44	Difference		\$ -	\$ -	\$ 3	\$ -	\$ 542	\$ 542

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 2, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 2, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	539	-	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	5,300	-	(485)	25,292	(5,628)	19,664
9	304200	Struct & Imp P	-	-	(283)	14,608	(8,755)	5,853
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(80)	76
12	304600	Struct & Imp Offices	-	-	(14)	498	(120)	378
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(93,519)	87,460
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	-	(2,048)	(11,461)	268,526	(133,442)	135,084
18	311300	Pump Equip Diesel	-	-	(37)	879	(202)	677
19	311500	Pump Equip Other	-	-	(1,823)	42,994	(15,935)	27,059
20	320100	WT Equip Non-Media	53,390	-	(109)	53,895	(254)	53,641
21	330000	Dist Reservoirs & Standpipe	-	-	(2,307)	142,420	(35,006)	107,414
22	331001	TD Mains Not Classified By Size	211,428	-	(4,156)	288,259	(5,726)	282,533
23	331100	TD Mains 4in & Less	-	-	(17,417)	884,097	(288,541)	595,556
24	331200	TD Mains 6in to 8in	215,278	-	(1,191)	216,170	(1,195)	214,975
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	29,108	-	(7,481)	323,850	(76,621)	247,229
27	334100	Meters	5,903	-	(2,225)	94,123	(27,640)	66,483
28	334200	Meter Installations	4,601	(76)	(115)	6,636	(85)	6,551
29	335000	Hydrants	41,492	-	(840)	68,011	(3,207)	64,804
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	-	(376)	11,451	(3,157)	8,294
33	340200	Comp & Periph Equip	-	-	(1,887)	9,435	(12,244)	(2,809)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(26,176)	(9,010)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	(137)	3,418	(1,455)	1,963
37	343000	Tools, Shop, Garage Equip	-	-	(279)	8,161	(1,999)	6,162
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(1,193)	1,268
41	346300	Comm Equip Other	-	-	(32)	659	(231)	428
42	SUB-TOTAL		\$ 566,500	\$ (2,124)	\$ (62,650)	\$ 2,690,549	\$ (742,411)	\$ 1,948,138
43	Company As Filed		566,500	(2,124)	(61,040)	2,690,549	(743,467)	1,947,082
44	Difference		\$ -	\$ -	\$ (1,610)	\$ -	\$ 1,056	\$ 1,056

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 3, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 3, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights VWT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	539	-	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(607)	25,292	(6,235)	19,057
9	304200	Struct & Imp P	-	-	(283)	14,608	(9,038)	5,570
10	304300	Struct & Imp VWT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(84)	72
12	304600	Struct & Imp Offices	-	-	(14)	498	(134)	364
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(99,094)	81,885
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	13,360	(6,500)	(11,545)	275,386	(138,487)	136,899
18	311300	Pump Equip Diesel	-	-	(37)	879	(239)	640
19	311500	Pump Equip Other	-	-	(1,823)	42,994	(17,758)	25,236
20	320100	WT Equip Non-Media	-	-	(2,156)	53,895	(2,409)	51,486
21	330000	Dist Reservoirs & Standpipe	8,899	-	(2,378)	151,319	(37,384)	113,935
22	331001	TD Mains Not Classified By Size	623	-	(5,686)	288,882	(11,412)	277,470
23	331100	TD Mains 4in & Less	8,610	(19,432)	(17,322)	873,275	(286,432)	586,843
24	331200	TD Mains 6in to 8in	6,497	-	(4,324)	222,667	(5,519)	217,148
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	9,953	-	(8,015)	333,803	(84,636)	249,167
27	334100	Meters	-	(170)	(2,277)	93,953	(29,746)	64,207
28	334200	Meter Installations	5,267	-	(198)	11,903	(283)	11,620
29	335000	Hydrants	2,712	-	(1,342)	70,723	(4,549)	66,174
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	1,709	(4,513)	(322)	8,647	1,034	9,681
33	340200	Comp & Periph Equip	-	-	(1,887)	9,435	(14,131)	(4,696)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(30,467)	(13,301)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	(137)	3,418	(1,592)	1,826
37	343000	Tools, Shop, Garage Equip	-	-	(279)	8,161	(2,278)	5,883
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(1,317)	1,144
41	346300	Comm Equip Other	-	-	(32)	659	(264)	395
42	SUB-TOTAL		\$ 57,630	\$ (30,615)	\$ (70,658)	\$ 2,717,564	\$ (782,454)	\$ 1,935,110
43	Company As Filed		57,630	(30,615)	(40,016)	2,717,564	(783,483)	1,934,081
44	Difference		\$ -	\$ -	\$ (30,642)	\$ -	\$ 1,029	\$ 1,029

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 4, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 4, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2006

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	(117)	-	422	117	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(607)	25,292	(6,842)	18,450
9	304200	Struct & Imp P	-	-	(283)	14,608	(9,321)	5,287
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(87)	69
12	304600	Struct & Imp Offices	-	-	(14)	498	(148)	350
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	-	-	(5,574)	180,979	(104,668)	76,311
16	310100	Power Generation Equip Other	-	-	-	-	-	-
17	311200	Pump Equip Electric	3,575	(4,436)	(11,687)	274,525	(145,738)	128,787
18	311300	Pump Equip Diesel	-	-	(37)	879	(276)	603
19	311500	Pump Equip Other	345,437	-	(6,102)	388,431	(23,859)	364,572
20	320100	WT Equip Non-Media	1,961	-	(2,185)	55,856	(4,595)	51,261
21	330000	Dist Reservoirs & Standpipe	-	(116)	(2,451)	151,203	(39,719)	111,484
22	331001	TD Mains Not Classified By Size	107,182	-	(6,308)	396,064	(17,720)	378,344
23	331100	TD Mains 4in & Less	1,689	-	(17,227)	874,964	(303,659)	571,305
24	331200	TD Mains 6in to 8in	167,681	-	(4,524)	390,348	(10,043)	380,305
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	32,413	-	(8,272)	366,216	(92,909)	273,307
27	334100	Meters	199	(76)	(2,274)	94,076	(31,944)	62,132
28	334200	Meter Installations	5,657	(704)	(357)	16,856	64	16,920
29	335000	Hydrants	204	-	(1,393)	70,927	(5,942)	64,985
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	(2,381)	(280)	6,266	3,135	9,401
33	340200	Comp & Periph Equip	-	(673)	(1,881)	8,762	(15,339)	(6,577)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(34,759)	(17,593)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	(3,418)	(131)	-	1,695	1,695
37	343000	Tools, Shop, Garage Equip	-	(377)	(279)	7,784	(2,180)	5,604
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	-	(124)	2,461	(1,441)	1,020
41	346300	Comm Equip Other	-	-	(32)	659	(296)	363
42	SUB-TOTAL		\$ 665,998	\$ (12,298)	\$ (76,318)	\$ 3,371,264	\$ (846,474)	\$ 2,524,790
43	Company As Filed		665,998	(12,298)	(64,705)	3,371,264	(848,188)	2,523,076
44	Difference		\$ -	\$ -	\$ (11,613)	\$ -	\$ 1,714	\$ 1,714

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 5, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 5, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2007

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) PLANT ADDT'S/ADJMTS	(B) PLANT RETIREMENTS	(C) RUCO CALCULATED ANNUAL DEP.	(D) TOTAL PLANT VALUE	(E) ACCUMULATED DEPRECIATION	(F) NET PLANT VALUE
1	301000	Organization	\$ -	\$ -	\$ -	\$ 567	\$ -	\$ 567
2	302000	Franchises	-	-	-	2,030	-	2,030
3	303200	Land & Land Rights SS	-	-	-	20,414	-	20,414
4	303300	Land & Land Rights P	-	-	-	50	-	50
5	303400	Land & Land Rights WT	-	-	-	50	-	50
6	303500	Land & Land Rights TD	-	-	-	422	117	539
7	303600	Land & Land Rights AG	-	-	-	2,755	-	2,755
8	304100	Struct & Imp SS	-	-	(607)	25,292	(7,449)	17,843
9	304200	Struct & Imp P	-	-	(283)	14,608	(9,604)	5,004
10	304300	Struct & Imp WT	-	-	-	-	-	-
11	304400	Struct & Imp TD	-	-	(3)	156	(91)	65
12	304600	Struct & Imp Offices	-	-	(14)	498	(162)	336
13	304800	Struct & Imp Misc	-	-	-	-	-	-
14	305000	Collect & Impounding	-	-	-	-	-	-
15	307000	Wells & Springs	57,972	-	(5,678)	238,951	(110,345)	128,606
16	310100	Power Generation Equip Other	4,832	-	-	4,832	-	4,832
17	311200	Pump Equip Electric	6,585	-	(11,644)	281,110	(157,382)	123,728
18	311300	Pump Equip Diesel	-	-	(63)	879	(339)	540
19	311500	Pump Equip Other	15,392	-	(16,498)	403,823	(40,357)	363,466
20	320100	WT Equip Non-Media	7	-	(2,235)	55,863	(6,829)	49,034
21	330000	Dist Reservoirs & Standpipe	-	-	(2,449)	151,203	(42,169)	109,034
22	331001	TD Mains Not Classified By Size	(94,942)	-	(7,728)	301,122	(25,449)	275,673
23	331100	TD Mains 4in & Less	(17)	(491)	(17,236)	874,456	(320,404)	554,052
24	331200	TD Mains 6in to 8in	36	-	(7,695)	390,384	(17,738)	372,646
25	331300	TD Mains 10in to 16in	-	-	-	-	-	-
26	333000	Services	36,835	(1,433)	(9,144)	401,618	(100,620)	300,998
27	334100	Meters	7,649	(2,672)	(2,417)	99,053	(31,689)	67,364
28	334200	Meter Installations	3,472	-	(489)	20,328	(425)	19,903
29	335000	Hydrants	7,440	-	(1,513)	78,367	(7,455)	70,912
30	339100	Other P/E Intangible	-	-	-	-	-	-
31	339500	Other P/E TD	-	-	-	-	-	-
32	340100	Office Furniture & Equip	-	(813)	(206)	5,453	3,742	9,195
33	340200	Comp & Periph Equip	-	(7,426)	(1,691)	1,336	(9,604)	(8,268)
34	341100	Trans Equip Lt Duty Trks	-	-	(4,291)	17,166	(39,050)	(21,884)
35	341200	Trans Equip Hvy Duty Trks	-	-	-	-	-	-
36	342000	Stores Equipment	-	-	-	-	1,695	1,695
37	343000	Tools, Shop, Garage Equip	6,658	-	(276)	14,442	(2,456)	11,986
38	344000	Laboratory Equipment	-	-	-	-	-	-
39	345000	Power Operated Equipment	-	-	-	-	-	-
40	346100	Comm Equip Non-Telephone	-	(529)	(123)	1,932	(1,035)	897
41	346300	Comm Equip Other	-	-	(32)	659	(329)	330
42	SUB-TOTAL		\$ 51,919	\$ (13,364)	\$ (92,317)	\$ 3,409,819	\$ (925,427)	\$ 2,484,392
43	Company As Filed		51,919	(13,364)	(78,788)	3,409,819	(926,977)	2,482,842
44	Difference		\$ -	\$ -	\$ (13,529)	\$ -	\$ 1,550	\$ 1,550
						RUCO TY As Calculated	\$ 3,409,819	\$ (925,427)
						RUCO Adjustments	-	(1,550)
						Co. TY Adjustments To Book	11,942	(14,011)
						Co. Variance To GL	1,623	1,624
						Co. Variance To GL	-	-
						Total	\$ 3,423,384	\$ (939,364)
						Co. As Filed	3,423,384	(939,364)
						Difference	\$ -	\$ -
						Adj. #1 - Difference In Computing Acc. Dep.	\$ -	\$ 1,550
						Adj. #3	-	-
						Adj. #4	-	-
						Total RUCO Adjustments	\$ -	\$ 1,550
						RUCO As Adjusted	\$ 3,423,384	\$ (937,814)
						RUCO Adjustments	-	1,550
						Co. As Filed	\$ 3,423,384	\$ (939,364)
						Co. Adjustments	13,565	(12,387)
						Co. Computed	\$ 3,409,819	\$ (926,977)

References:

Columns (A) (B): Company Schedule B-2
Column (C): Workpapers "RUCO Revised SCW ACC DEP", Sheet "2002-2007"
Column (D): Schedule RLM-3, Page 6, Column (D) + Column (A) + Column (B)
Column (E): Schedule RLM-3, Page 6, Column (E) + Column (B) + Column (C)
Column (F): Column (D) - Column (E)

Arizona-Americian Water Company
Docket Nos. SW & W-01303A-08-0227
Test Year Ended December 31, 2007

Tubac Water District
Schedule RLM-5
Page 1 of 2

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 1,445	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	1,445	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 1,598	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	1,598	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 40,665	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	16,210	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (24,455)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (24,455)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 131,623	\$ -	\$ 131,623	12.00	\$ 1,579,471
2	Purchased Water	-	-	-	-	-
3	Fuel & Power	25,631	-	25,631	32.42	830,990
4	Chemicals	2,190	-	2,190	18.06	39,546
5	Management Fees	87,180	(1,049)	86,131	10.40	895,759
6	Group Insurance	24,921	-	24,921	(14.08)	(350,939)
7	Pensions	28,546	-	28,546	45.00	1,284,592
8	Insurance Other Than Group	5,049	(3,011)	2,038	(68.27)	(139,133)
9	Customer Accounting	11,644	(6,595)	5,049	19.76	99,757
10	Rents	4,146	7,498	11,644	(10.50)	(122,262)
11	Depreciation & Amorization	81,679	(81,679)	-	-	-
12	Other Operating Expenses	77,593	(3,121)	74,472	30.00	2,234,156
	Taxes:					
13	Taxes Other Than Income	11,078	-	11,078	15.07	166,996
14	Property Taxes	26,350	3,842	30,192	212.50	6,415,749
15	Income Tax	52,871	(84,725)	(31,854)	28.75	(915,795)
16	Interest Expense	-	43,281	43,281	106.52	
17	Total Appropriate Operating Expenses	<u>\$ 570,501</u>	<u>\$ (125,559)</u>	<u>\$ 444,943</u>		<u>\$ 12,018,887</u>
18	Expense Lag	Line 17, Col. (E) / (C)	27.01			
19	Revenue Lag	Company Response To RUCO DR 8	40.31			
20	Net Lag	Line 19 - Line 18	13.30			
21	RUCO Adjusted Expenses	Col. (C), Line 17	<u>\$ 444,943</u>			
22	Cash Working Capital	Line 20 X Line 21 / 365 Days	<u>16,210</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	40,665			
24	Difference	Line 22 - Line 23	<u>\$ (24,455)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 24	<u>\$ (24,455)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 423,061	\$ -	\$ 423,061	\$ 210,004	\$ 633,065
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	3,839	-	3,839	-	3,839
4	TOTAL OPERATING REVENUE	<u>\$ 426,900</u>	<u>\$ -</u>	<u>\$ 426,900</u>	<u>\$ 210,004</u>	<u>\$ 636,904</u>
	Operating Expenses:					
5	Labor	\$ 131,623	\$ -	\$ 131,623	\$ -	\$ 131,623
6	Purchased Water	\$ -	-	-	-	-
7	Fuel & Power	25,631	-	25,631	-	25,631
8	Chemicals	2,190	-	2,190	-	2,190
9	Waste Disposal	(27)	27	-	-	-
10	Management Fees	87,180	(1,049)	86,131	-	86,131
11	Group Insurance	24,921	-	24,921	-	24,921
12	Pensions	28,546	-	28,546	-	28,546
13	Regulatory Expense	1,480	558	2,038	-	2,038
14	Insurance Other Than Group	5,049	-	5,049	-	5,049
15	Customer Accounting	11,644	-	11,644	-	11,644
16	Rents	4,146	-	4,146	-	4,146
17	General Office Expense	8,811	-	8,811	-	8,811
18	Miscellaneous	49,935	(1,668)	48,267	-	48,267
19	Maintenance Expense	17,394	-	17,394	-	17,394
20	Depreciation & Amortization	81,679	(301)	81,378	-	81,378
21	General Taxes - Property Taxes	26,350	3,842	30,192	-	30,192
22	General Taxes - Other	11,078	-	11,078	-	11,078
23	Income Tax	(52,178)	20,324	(31,854)	49,397	17,544
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 465,453</u>	<u>\$ 21,733</u>	<u>\$ 487,185</u>	<u>\$ 49,397</u>	<u>\$ 536,583</u>
26	OPERATING INCOME (LOSS)	<u>\$ (38,553)</u>	<u>\$ (21,733)</u>	<u>\$ (60,285)</u>	<u>\$ 160,607</u>	<u>\$ 100,321</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJMT NO. 1 PROPERTY TAX	(C) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(D) ADJMT NO. 3 RATE CASE EXPENSE	(E) ADJMT NO. 4 WASTE DISPOSAL	(F) ADJMT NO. 5 AIP EXPENSE	(G) ADJMT NO. 6 MISC EXPENSES	(H) ADJMT NO. 7 INCOME TAX	(I) RUCO AS ADJTD
1	Revenues:									
2	Metered Water Revenues	\$ 423,061	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 423,061
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	3,839	-	-	-	-	-	-	-	3,839
5	TOTAL OPERATING REV.	<u>\$ 426,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 426,900</u>
6	Operating Expenses:									
7	Labor	\$ 131,623	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,623
8	Purchased Water	-	-	-	-	-	-	-	-	-
9	Fuel & Power	25,631	-	-	-	-	-	-	-	25,631
10	Chemicals	2,190	-	-	-	-	-	-	-	2,190
11	Waste Disposal	(27)	-	-	-	27	-	-	-	-
12	Management Fees	87,180	-	-	-	-	(1,049)	-	-	86,131
13	Group Insurance	24,921	-	-	-	-	-	-	-	24,921
14	Pensions	28,546	-	-	-	-	-	-	-	28,546
15	Regulatory Expense	1,480	-	-	558	-	-	-	-	2,038
16	Insurance Other Than Group	5,049	-	-	-	-	-	-	-	5,049
17	Customer Accounting	11,644	-	-	-	-	-	-	-	11,644
18	Rents	4,146	-	-	-	-	-	-	-	4,146
19	General Office Expense	8,811	-	-	-	-	-	-	-	8,811
20	Miscellaneous	49,935	-	-	-	-	-	(1,668)	-	48,267
21	Maintenance Expense	17,394	-	-	-	-	-	-	-	17,394
22	Depreciation & Amortization	81,679	-	(301)	-	-	-	-	-	81,378
23	General Taxes - Property Taxes	26,350	3,842	-	-	-	-	-	-	30,192
24	General Taxes - Other	11,078	-	-	-	-	-	-	-	11,078
25	Income Tax	(52,178)	-	-	-	-	-	-	20,324	(31,854)
26	TOTAL OPERATING EXP.	<u>\$ 465,453</u>	<u>\$ 3,842</u>	<u>\$ (301)</u>	<u>\$ 558</u>	<u>\$ 27</u>	<u>\$ (1,049)</u>	<u>\$ (1,668)</u>	<u>\$ 20,324</u>	<u>\$ 487,185</u>
	OPERATING INC. (LOSS)	<u>\$ (38,553)</u>								<u>\$ (60,285)</u>

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Miscellaneous Expenses
- 7 Income Tax

REFERENCE:

- 1 Testimony, RLM And Schedule RLM-8
- 2 Testimony, RLM And Schedule RLM-9
- 3 Testimony, RLM And Schedule RLM-10
- 4 Testimony, RLM
- 5 Testimony, RLM And Schedule RLM-11
- 6 Testimony, RLM And Schedule RLM-12
- 7 Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Year 2005	Co. Sch. E-2	\$ 435,053	
2	Year 2006	Co. Sch. E-2	405,985	
3	RUCO Proposed Revenue	RUCO Sch. RLM-6	636,904	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 1,477,942	
5	Average Annual Operating Revenues	Line 4 / 3	492,647	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 985,295
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 479,596	
8	10% Of CWIP	Line 7 X 10%		\$ 47,960
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,033,254
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 237,648	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	12.70%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	12.70%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 30,192
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		26,350
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 3,842
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 3,842

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 567	0.00%	\$ -
2	302000	Franchises	2,030	0.00%	-
3	303200	Land & Land Rights SS	20,414	0.00%	-
4	303300	Land & Land Rights P	50	0.00%	-
5	303400	Land & Land Rights WT	50	0.00%	-
6	303500	Land & Land Rights TD	422	0.00%	-
7	303600	Land & Land Rights AG	2,755	0.00%	-
8	304100	Struct & Imp SS	25,292	2.40%	607
9	304200	Struct & Imp P	14,608	1.94%	283
10	304300	Struct & Imp WT	-	0.00%	-
11	304400	Struct & Imp TD	156	1.92%	3
12	304600	Struct & Imp Offices	498	2.89%	14
13	304800	Struct & Imp Misc	-	0.00%	-
14	305000	Collect & Impounding	-	0.00%	-
15	307000	Wells & Springs	238,951	3.08%	7,360
16	310100	Power Generation Equip Other	4,832	4.24%	205
17	311200	Pump Equip Electric	281,110	4.24%	11,919
18	311300	Pump Equip Diesel	879	4.42%	39
19	311500	Pump Equip Other	403,823	4.24%	17,122
20	320100	WT Equip Non-Media	55,863	4.00%	2,235
21	330000	Dist Reservoirs & Standpipe	151,203	1.62%	2,449
22	331001	TD Mains Not Classified By Size	301,122	1.97%	5,932
23	331100	TD Mains 4in & Less	874,456	1.97%	17,227
24	331200	TD Mains 6in to 8in	390,384	1.97%	7,691
25	331300	TD Mains 10in to 16in	-	2.34%	-
26	333000	Services	401,618	2.45%	9,840
27	334100	Meters	99,053	2.42%	2,397
28	334200	Meter Installations	20,328	2.42%	492
29	335000	Hydrants	78,367	1.97%	1,544
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	0.00%	-
32	340100	Office Furniture & Equip	5,453	3.28%	179
33	340200	Comp & Periph Equip	1,336	20.00%	267
34	341100	Trans Equip Lt Duty Trks	17,166	25.00%	4,292
35	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
36	342000	Stores Equipment	-	4.00%	-
37	343000	Tools, Shop, Garage Equip	14,442	3.42%	494
38	344000	Laboratory Equipment	-	0.00%	-
39	345000	Power Operated Equipment	-	4.64%	-
40	346100	Comm Equip Non-Telephone	1,932	5.03%	97
41	346300	Comm Equip Other	659	4.93%	32
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 3,409,819		\$ 92,719
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	12,387		3,026
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	-		-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 95,746
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITIZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			-
49		AMORTIZATION OF REGULATORY CIAC			(14,368)
50		Rounding			-
51		TOTAL DEPRECIATION EXPENSE			\$ 81,378
52	Company As Filed				81,679
53	Difference				\$ (301)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (301)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
RATE CASE EXPENSE**

LINE NO.	DESCRIPTION	(A) COMPANY ESTIMATE	(B) RUCO ADJUSTMENT	(C) RUCO AS ADJUSTED
1	Rate Case Expense Total	<u>\$ 612,000</u>	<u>\$ (187,735)</u>	<u>\$ 424,265</u>
2	Allocation Factor (See NOTE Below)	0.9990%		1.4411%
3	Tubac Water District (Line 1 X Line 2)	<u>\$ 6,114</u>	<u>\$ -</u>	<u>\$ 6,114</u>
4	Amortization Period - 3 Years			3
5	RUCO Adjusted Rate Case Expense For Instant Case (Line 3 / 3 Years)			<u>\$ 2,038</u>
6	Company Rate Case Expenses As Filed (Company Sch. C-2)			<u>\$ 1,480</u>
7	RUCO Pro Forma Rate Case Expense (Lines 5 - 6)			<u>\$ 558</u>
8	RUCO Adjustment (Line 7) (See RLM-7, Column (D))			<u>\$ 558</u>

NOTE

4-Factor Allocation		Company As Filed		RUCO As Adjusted	
Districts Included In This Filing					
9	Sun City West Water District	11.7965%	\$ 72,195	17.0164%	\$ 72,195
10	Paradise Valley Water District	10.4331%	63,851	15.0497%	63,851
11	Tubac Water District	0.9990%	6,114	1.4411%	6,114
12	Agua Fria Water District	31.3783%	192,035	45.2631%	192,035
13	Havasas Water District	1.8822%	11,519	2.7151%	11,519
14	Mohave Water District	11.3740%	69,609	16.4069%	69,609
15	Mohave Wastewater District	1.4612%	8,943	2.1078%	8,943
16	Total	<u>69.3243%</u>	<u>\$ 424,265</u>	<u>100.0000%</u>	<u>\$ 424,265</u>
Districts NOT Included In This Filing					
17	Agua Fria Wastewater District	8.2232%	\$ 50,326		
18	Distco/Treatco Sewer	9.8095%	60,034		
19	Distco/Treatco Water	12.6430%	77,375		
20		<u>100.0000%</u>	<u>\$ 612,000</u>		

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
ANNUAL INCENTIVE PLAN EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJUSTED
1	AZ-AM Annual Incentive Plan ("AIP") Expense Total	Co. Response To RUCO DR 3.01.e	\$ 482,198
2	Allocation Factor	Co. Workpapers Per SLH-6	0.7254%
3	Tubac Water District	Lines 1 X 2	<u>\$ 3,498</u>
4	Portion Deemed Shareholder Benefit Only	RLM Testimony	30.00%
5	RUCO Test-Year Disallowance Of AIP Expense	Lines 3 X 4	<u>\$ (1,049)</u>
6	RUCO Adjustment (See RLM-7, Column (D))	Line 5	<u><u>\$ (1,049)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Tubac Water Direct Miscellaneous Account (RLM-12, Pg, Ln 113)	\$ (17.12)	100.00%	\$ (17)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	0.7254%	\$ (99)	
3	TOTAL				<u>\$ (116)</u>

NOTE

4-Factor Allocation

4	Sun City West Water District	8.3198%
5	Paradise Valley Water District	7.6863%
6	Tubac Water District	0.7254%
7	Agua Fria Water District	23.0946%
8	Havasui Water District	1.3850%
9	Mohave Water District	7.8288%
10	Mohave Wastewater District	1.0290%

ADDITIONAL ADJUSTMENT FOR TUBAC WATER DISTRICT

The Company Incorrectly Calculated "Corporate Office" Expense As A Positive Value Instead Of A Negative Value

Adjustment SLH-16 As Filed By Company

11	Tubac Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (100)	100.00%	\$ (100)	
12	Corporate Office Allocable Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ 16,849	0.7254%	<u>\$ 122</u>	
13	SUB-TOTAL				\$ 22

Company's Adjustment As Revised By RUCO

14	Tubac Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (1,524)	100.00%	\$ (1,524)	
15	Corporate Office Misc. Account (Recorded As a Negative Amount)	\$ (16,849)	0.7254%	<u>\$ (122)</u>	
16	SUB-TOTAL				\$ (1,646)
17	DIFFERENCE (Column D, Line 16 - Line 13)				<u>\$ (1,668)</u>
18	TOTAL (Column D, Sum Of Line 3 + Line 17)				<u>\$ (1,668)</u>
19	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (Line 18) (See RLM-7, Column (G))				<u>\$ (1,668)</u>

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 -CONT'D
INAPPROPRIATE MISCELLANEOUS EXPENSES

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
CORPORATED OFFICE MISCELLANEOUS EXPENSES					
1	Misc Oper WT	\$ 55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
2	Misc Oper WT	55.00	ACTEVA.COM ONLINE EVENTS	PAUL D TAYLOR	Dues & Memberships
3	PCard Undistributed	33.00	ALVES FLOWERS & GIFTS	NANCY J HUCKEY	Land
4	Employee Awards AG	2,400.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
5	Employee Awards AG	2,500.00	ARROWHEAD TOWNE CENTER	KURTIS L STRAUDEL	Service Awards and Premiums
6	PCard Undistributed	27.29	BASHAS'	ARTHUR W FAEILLO	External training/seminars
7	Training AG	8.49	BASHAS'	KURTIS L STRAUDEL	External training/seminars
8	Training AG	13.24	BASHAS'	KURTIS L STRAUDEL	External training/seminars
9	Training AG	33.69	BASHAS'	KURTIS L STRAUDEL	In-house training/seminars
10	PCard Undistributed	25.64	BURGER KING #5915 Q	ANGEL STEVENS	NON-Catered Food & Beverages
11	PCard Undistributed	26.00	CHARLEY'S GRILLED SQ	JAMES ISHMAEL	NON-Catered Food & Beverages
12	PCard Undistributed	1.89	CHEVRON	WILLIAM L WALLSTEAD	NON-Catered Food & Beverages
13	PCard Undistributed	1.59	CHEVRON	BERT L REYNOLDS	NON-Catered Food & Beverages
14	Misc Oper AG	59.57	CHILI'S GRI	BRIAN BIESEMEYER	NON-Catered Food & Beverages
15	PCard Undistributed	40.00	CHINA BUFFET	ANGEL STEVENS	NON-Catered Food & Beverages
16	PCard Undistributed	23.49	CHIPOTLE #0898 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
17	PCard Undistributed	5.48	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
18	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
19	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
20	PCard Undistributed	5.59	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
21	PCard Undistributed	7.18	CIRCLE K 06669 Q	JAMES ISHMAEL	NON-Catered Food & Beverages
22	Training AG	28.05	COLDSTN CREAM #30 Q	KURTIS L STRAUDEL	In-house training/seminars
23	PCard Undistributed	273.61	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
24	PCard Undistributed	7.36	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
25	PCard Undistributed	17.16	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
26	PCard Undistributed	220.69	COLORADO RIVER TEES	TERRI E BAYSINGER	Service Awards and Premiums
27	Co Dues/Membership Deduct	281.06	Costco Wholesale Membership-RE	Membership Dues	Financial Costs
28	Misc Oper AG	55.89	Costco-REMIT	7003-7300-0000-6704	NON-Catered Food & Beverages
29	Training AG	48.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	External training/seminars
30	Training AG	54.15	COUSINS SUBS-UNION HILLS	KURTIS L STRAUDEL	In-house training/seminars
31	PCard Undistributed	34.99	CRAZY CARLOS INC	GARRY T BURTON	NON-Catered Food & Beverages
32	PCard Undistributed	30.00	CUCINA TAGLIANI	JEREMIAH MECHAM	NON-Catered Food & Beverages
33	PCard Undistributed	18.52	DENNY'S INC	ANGEL STEVENS	NON-Catered Food & Beverages
34	PCard Undistributed	53.91	DILLONS GRAND	DALE E KENNOW	NON-Catered Food & Beverages
35	PCard Undistributed	14.21	DILLONS GRAND	PAUL D TAYLOR	NON-Catered Food & Beverages
36	PCard Undistributed	71.37	DILLONS THUNDERBIRD	FLOYD K MCKINNEY	NON-Catered Food & Beverages

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
37	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	External training/seminars
38	Training AG	12.96	EINSTEIN BROS	KURTIS L STRAUDEL	In-house training/seminars
39	PCard Undistributed	27.14	EINSTEIN BROS	PAULA A CHRISTIAN	NON-Catered Food & Beverages
40	Trans Oper AG	66.39	EL PASO BARBQUE	ERNEST G SANTA CRUZ	NON-Catered Food & Beverages
41	PCard Undistributed	30.84	EL TORITO	TODD R FARRELL	NON-Catered Food & Beverages
42	PCard Undistributed	19.22	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
43	PCard Undistributed	29.76	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
44	PCard Undistributed	28.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
45	PCard Undistributed	25.60	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
46	PCard Undistributed	33.28	FRYS-FOOD-DRG #006 SXN	DALE E KENNOW	NON-Catered Food & Beverages
47	PCard Undistributed	13.76	FRYS-FOOD-DRG #122 SXN	ROY PEREZ JR	NON-Catered Food & Beverages
48	Training AG	25.59	HMSHOST-PHX-AIR	NEIL J MEYER	NON-Catered Food & Beverages
49	Misc Oper AG	125.00	Huckeby, Nancy J -Petty Cash	Christmas Decorations	Office Decorations
50	Misc Oper AG	200.00	Huckeby, Nancy J -Petty Cash	Christmas Party Security	Security & Monitoring
51	PCard Undistributed	9.96	HUNGRY HOWIE'S PIZZA	JON C BEHRENDT	NON-Catered Food & Beverages
52	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	274560	NON-Catered Food & Beverages
53	Misc Oper TD	280.99	Ice Wagon The-PO/REMIT	ICE	NON-Catered Food & Beverages
54	Misc Oper AG	143.61	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
55	Misc Oper AG	81.18	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
56	PCard Undistributed	40.53	IHOP	ANGEL STEVENS	NON-Catered Food & Beverages
57	PCard Undistributed	27.58	KFC #1303016	ANGEL STEVENS	NON-Catered Food & Beverages
58	Trans Oper AG Lease Cost	60.91	LAS CAZUELA'S	ANGEL STEVENS	NON-Catered Food & Beverages
59	PCard Undistributed	67.37	MADELYN'S	PAUL M LI	NON-Catered Food & Beverages
60	PCard Undistributed	3.98	MCDONALD'S F	KURTIS L STRAUDEL	NON-Catered Food & Beverages
61	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	Catering/works catering
62	Training AG	72.45	MI PUEBLO	KURTIS L STRAUDEL	External training/seminars
63	PCard Undistributed	6.96	PILOT	JAMES ISHMAEL	In-house training/seminars
64	PCard Undistributed	6.34	PILOT	JAMES ISHMAEL	NON-Catered Food & Beverages
65	PCard Undistributed	71.98	PIZZA HUT	ANGEL STEVENS	NON-Catered Food & Beverages
66	Other Welf Oper AG	41.25	Professional Plants & Inc-PO/R	SERVICES	Landscaping
67	PCard Undistributed	10.02	QUIZZNOS	ANDREW C MARTINEZ	NON-Catered Food & Beverages
68	PCard Undistributed	54.55	RIO MIRAGE CAFE	JENNIFER L HALLIDAY	NON-Catered Food & Beverages
69	PCard Undistributed	16.77	ROMENS GYROS	RANDY J ZIOLKOWSKI	Pathwaynet Default
70	PCard Undistributed	69.87	ROSATI'S PIZZA - PEORI	ANGEL STEVENS	NON-Catered Food & Beverages
71	Training AG	61.53	ROSATI'S PIZZA UNION H	KURTIS L STRAUDEL	External training/seminars
72	PCard Undistributed	4.99	SAFEWAY STORE	CHRISTOPHER M WILLIAMS	NON-Catered Food & Beverages
73	PCard Undistributed	20.95	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
74	PCard Undistributed	39.37	SAFEWAY STORE	JEREMIAH MECHAM	NON-Catered Food & Beverages
75	PCard Undistributed	21.13	SAFEWAY STORE	ROY PEREZ JR	NON-Catered Food & Beverages
76	PCard Undistributed	14.53	SAFEWAY STORE	ROY PEREZ JR	Catering/works catering
77	PCard Undistributed	15.64	SUBWAY 25139	JEFFREY S BORN	NON-Catered Food & Beverages
78	Misc Oper AG	25.00	Supreme Court of Pennsylvania	Certificate	Event organization services
79	Employee Awards AG	107.84	Tharpe Company Inc-REMIT	8549	Service Awards and Premiums
80	Employee Awards AG	722.07	Tharpe Company Inc-REMIT	98415RI	Service Awards and Premiums
81	Employee Awards AG	829.39	Tharpe Company Inc-REMIT	CUST #16248	Service Awards and Premiums

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
82	Employee Awards AG	882.92	Tharpe Company Inc-REMIT	CUST# 16248	Service Awards and Premiums
83	Employee Awards AG	90.27	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
84	Employee Awards AG	176.84	Tharpe Company Inc-REMIT	cust# 8549	Service Awards and Premiums
85	Employee Awards AG	120.50	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
86	Employee Awards AG	110.61	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
87	Employee Awards AG	79.64	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
88	Employee Awards AG	88.41	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
89	Employee Awards AG	78.57	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
90	Employee Awards AG	204.49	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
91	Employee Awards AG	135.65	Tharpe Company Inc-REMIT	CUST# 8549	Service Awards and Premiums
92	Employee Awards AG	79.93	Tharpe Company Inc-REMIT	inv 454294ri	Service Awards and Premiums
93	Misc Oper AG	67.04	TLF CACTUS FLOWER FLOR	NANCY J HUCKEY	Land
94	Overnight Shipping AG	35.93	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
95	Overnight Shipping AG	(35.93)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
96	Community Relations	1,000.00	Water for People-REMIT	Water For People Sponsor	Sponsoring
97	Training AG	17.32	WONDER BREAD/HOSTESS	KURTIS L STRAUDEL	External training/seminars
98		\$ 13,607.91			

LINE NO.	ACCOUNT DESCRIPTION	NET AMOUNT	EXPLANATION 1	EXPLANATION 2	PRODUCT DESCRIPTION
DISTRICT DIRECTLY ALLOCATED MISCELLANEOUS EXPENSES					
SUN CITY WEST WATER DISTRICT MISCELLANEOUS EXPENSES					
99	M & S Oper TD	\$ 18.94	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
100	M & S Oper SS	59.03	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
101	Misc Oper PP	57.63	RED ROBIN NO	PAUL D TAYLOR	NON-Catered Food & Beverages
102	Misc Oper PP	30.93	SAFEWAY STORE	ROBERT L CRON	NON-Catered Food & Beverages
103	Total	\$ 166.53			
PARADISE VALLEY WATER DISTRICT MISCELLANEOUS EXPENSES					
104	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
105	Training AG	5.39	LONG JOHN SILV	NEIL J MEYER	NON-Catered Food & Beverages
106	Safety Incentive	132.00	Peavey Performance Systems	1004289	Service Awards and Premiums
107	Training AG	6.26	SUBWAY #10469	NEIL J MEYER	NON-Catered Food & Beverages
108	Misc Oper TD	33.98	THE HOME DEPOT	LEE F HUDDLESTON	Event organization services
109	Total	\$ 313.29			
TUBAC WATER DISTRICT MISCELLANEOUS EXPENSES					
110	Contract Svc-Eng Oper AG	\$ 17.12	KFC 1303012	ROBERT L CRON	NON-Catered Food & Beverages
111	Overnight Shipping AG	20.82	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
112	Overnight Shipping AG	(20.82)	United Way of the Nat Capital	SHIPPER# 6R29A2	Mail/parcel delivery
113	Total	\$ 17.12			
AGUA FRIA WATER DISTRICT MISCELLANEOUS EXPENSES					
114	Brochures and Handouts	\$ 1,788.00	AZ University	Project WET Sponsorship	Sponsoring
115	Misc Oper SS	157.41	Clearwater Beverages LLC	SALE ORDER# 800	NON-Catered Food & Beverages
116	Water Res Conservation	317.39	CSI CRESTLINE CO INC	SALLY L CECCARELLI WOLF	Service Awards and Premiums
117	M & S Oper TD	44.22	Ice Wagon The-PO/REMIT	SERVICE	Kitchen/Cleaning/Toiletries
118	Total	\$ 2,307.02			
HAVASU WATER DISTRICT MISCELLANEOUS EXPENSES					
119	No Adjustment	\$ -			
MOHAVE WATER DISTRICT MISCELLANEOUS EXPENSES					
120	Safety Incentive	\$ 135.66	Brown & Bigelow-REMIT	03204265	Service Awards and Premiums
121	M & S Oper TD	22.80	DENNY'S INC	CHAD E GEBOW	NON-Catered Food & Beverages
122	M & S Oper TD	133.56	Ferguson Enterprises Inc #675	7202007	NON-Catered Food & Beverages
123	M & S Oper TD	50.00	Ferguson Enterprises Inc-#602-	CUST# 605937	NON-Catered Food & Beverages
124	Total	\$ 342.02			
MOHAVE WASTEWATER DISTRICT MISCELLANEOUS EXPENSES					
125	M & S Oper WT	\$ 26.92	WAL-MART	WILLIAM L WALLSTEAD	Animal feed
126	Total	\$ 26.92			

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ (92,139)
	LESS:		
2	Arizona State Tax	Line 11	(9,436)
3	Interest Expense	Note (A) Line 20	43,281
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (125,984)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	17.79%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ (22,418)</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ (92,139)
	LESS:		
8	Interest Expense	Note (A) Line 20	43,281
9	State Taxable Income	Line 7 - Line 8	<u>\$ (135,420)</u>
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ (9,436)</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (22,418)
13	State Income Tax Expense	Line 11	(9,436)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ (31,854)</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(52,178)
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 20,324</u>
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	<u>\$ 20,324</u>

NOTE (A):

Interest Synchronization:

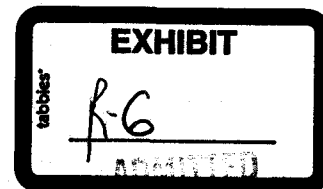
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 1,433,161
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	<u>\$ 43,281</u>

COST OF CAPITAL

LINE NO.	DESCRIPTION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST RATE
1	DEBT	55.20%	5.46%	3.02%
2	PREFERRED STOCK	0.00%	0.00%	0.00%
3	COMMON EQUITY	44.80%	8.88%	3.98%
4	TOTAL CAPITALIZATION	<u>100.00%</u>		
5	WEIGHTED COST OF CAPITAL			<u>7.00%</u>

References:

Columns (A) Thru (F): Testimony, WAR



ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

SURREBUTTAL TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 3, 2009

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INTRODUCTION

Q. Please state your name for the record.

A. My name is Rodney Lane Moore.

Q. Have you previously filed testimony regarding this docket?

A. Yes, I have. I filed direct testimony in this docket on January 9, 2009.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony will address the Company's rebuttal comments pertaining to adjustments I sponsored in my direct testimony.

SUMMARY OF ADJUSTMENTS

Q. What areas will you address in your surrebuttal testimony?

A. My surrebuttal testimony will address the following RUCO proposed operating income adjustments:

1. Surrebuttal Adjustment No. 1 – ACRM Revenue;
2. Surrebuttal Adjustment No. 2 – Labor Expense;
3. Surrebuttal Adjustment No. 3 – Tank Maintenance Expense;
4. Surrebuttal Adjustment No. 4 – Chemical Expense;
5. Surrebuttal Adjustment No. 5 - Water Testing Expense;
6. Revise Direct Adjustment No. 8 - Property Tax;
7. Revise Direct Adjustment No. 9 - Depreciation Expense;
8. Revise Direct Adjustment No. 10 - Income Tax;

1 9. Rate Design and Proof of Recommended Revenue; and

2 10. Typical Residential Bill Analysis.

3
4 To support the adjustments in my surrebuttal testimony, I am sponsoring
5 Surrebuttal Schedules numbered SURR RLM-1, SURR RLM-2A, SURR
6 RLM-2, SURR RLM-6 through SURR RLM-9, SURR RLM-13, Rate
7 Design Surrebuttal Schedules SURR RLM-RD1 and SURR RLM-RD2,
8 which are filed concurrently in my surrebuttal testimony.

9
10 **OPERATING INCOME**

11 RUCO Surrebuttal Income Adjustment No. 1 (Company Adjustment LJG-
12 1R) – Annualize Arsenic Cost Removal Mechanism ("ACRM") Revenue

13 NOTE: THIS ADJUSTMENT AFFECTS ONLY HAVASU, PARADISE
14 VALLEY AND SUN CITY WEST WATER.

15 Q. Please explain your adjustment to the test-year revenue.

16 A. As shown on the appropriate district's Schedule SURR RLM-7, this is a
17 conforming adjustment, which accepts the Company's recognition of the
18 additional revenue generated by the Commission's approval of the ACRM
19 Step 2 increase as a result of Decision No. 70560 effective September 3,
20 2008.

RUCO Surrebuttal Income Adjustment No. 2 (Company Adjustment LJG-4R) - Labor Expense

NOTE: THIS ADJUSTMENT AFFECTS ONLY HAVASU, PARADISE VALLEY, TUBAC AND MOHAVE WASTEWATER.

Q. Please explain your adjustment to the test-year labor expense.

A. As shown on the appropriate district's Schedule SURR RLM-7, this is a conforming adjustment to reflect the Company's rebuttal position to correctly record the impact of the adjusted labor expense level in all districts involved in the instant case. Previously, my direct testimony labor adjustment did not extend to all districts.

RUCO Surrebuttal Income Adjustment No. 3 (Company Adjustment LJG-5R) – Tank Maintenance Expense

NOTE: THIS ADJUSTMENT AFFECTS ALL WATER DISTRICTS

Q. Please explain your adjustment to the test-year labor expense.

A. As shown on Schedule SURR RLM-7, this is a conforming adjustment to reflect the Company's revised cost estimates for each district's tank maintenance expense account.

RUCO Surrebuttal Income Adjustment No. 4 (Company Adjustment LJG-3R) - Chemical Expenses

NOTE: THIS ADJUSTMENT AFFECTS ONLY AGUA FRIA AND HAVASU.

Q. Please explain your adjustment to the test-year chemical expenses.

A. As shown on the appropriate district's Schedule SURR RLM-7, this is a conforming adjustment to reflect the Company's similar adjustment to Agua Fria as RUCO had recommended for Paradise Valley. Moreover, this adjustment recognizes Havasu's amortized arsenic O & M costs approved in Decision No. 69162, dated December 5, 2006 and inadvertently omitted by the Company in its original filing.

RUCO Surrebuttal Income Adjustment No. 5 (Company Adjustment LJG-6R) – Water Testing Expenses

NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS

Q. Please explain your adjustment to the test-year water testing expenses.

A. As shown on Schedule SURR RLM-7, this is a conforming adjustment to reflect the Company's revised cost estimates for each district's water testing expenses.

RUCO Direct Operating Income Adjustment RLM-8 – Property Tax
Expense

NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS

Q. Please explain your adjustment to the test-year property tax expenses.

A. As shown on Schedule SURR RLM-7, this adjustment reflects changes in RUCO's adjusted and proposed revenues.

RUCO Direct Operating Income Adjustment RLM-9 – Depreciation
Expense

NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS

Q. Please explain your adjustment to the test-year depreciation expense.

A. As shown on Schedule SURR RLM-7, this adjustment reflects changes in RUCO's adjusted gross plant in service and RUCO's acceptance of Staff's depreciation rates as stated in its direct testimony.

RUCO Direct Operating Income Adjustment RLM-10 – Income Tax
Expense

NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS

Q. Please explain your adjustment to the test-year income tax expenses.

A. As shown on Schedule SURR RLM-7, this adjustment reflects changes in RUCO's adjusted operating expenses and revenues.

1 Rate Case Expense

2 Q. Is RUCO revising its recommended level of rate case expenses for the
3 instant case as stated in its direct testimony?

4 A. No. RUCO finds no compelling evidence in the Company's rebuttal
5 testimony to revise its recommended level of rate case expense as a
6 financial burden on the ratepayers.

7
8 Q. Do you agree with the Company's proposal to include the unamortized
9 portion of the prior rate case expenses for Mohave Water and Mohave
10 Wastewater districts for recovery in the instant case?

11 A. No.

12
13 Q. Please discuss the reasons why it is inappropriate to allow utilities to
14 recover prior rate case expenses.

15 A. Such treatment is contrary to the goals of the ratemaking process. The
16 ratemaking process attempts to set rates at a normal recurring level of
17 expenses. Simultaneous amortization of the expense of two separate rate
18 cases is not a normal recurring expense. Allowing a utility to reamortize
19 prior rate case expenses would create a situation that allow the utility to
20 recover expenses associated with rates that are no longer in effect.
21 Ratemaking principles have traditionally prohibited such retroactive
22 ratemaking. Those principles have also required that assets and
23 expenses included in rates provide a current benefit to ratepayers.

1 Reamortization of prior years' rate case expense would defy both these
2 standard ratemaking principles.

3
4 Q. Please continue discussing why the reamortization of prior rate case
5 expense is inappropriate.

6 A. The amortization period set for rate case recovery in any given docket is
7 an estimation or approximation of the length of time rates are reasonably
8 expected to be in effect. Because it is an estimate, the period is not exact
9 and generally results in under- or over-recovery. Allowing a utility to
10 recover prior unrecovered rate case expense in a subsequent docket
11 would be inequitable. Such a practice, if allowed to continue, would
12 consistently reward stockholders at ratepayers' expense.

13
14 Q. In order to create an equitable situation, is it your recommendation that
15 both under- and over-recovered rate case expenses should be charged or
16 refunded to the ratepayer?

17 A. No. Such a practice would result in current ratepayers being charged or
18 credited with expenditures related to rates that are no longer in effect,
19 creating intergenerational inequities and a situation where rates are set
20 retroactively. Certainly, it has never been this Commission's practice to
21 examine the level of expense that was authorized in individual expense
22 categories in prior dockets, compare it to the level of expense actually
23 incurred, and then allow the utility to retroactively recover or refund the

1 difference. In this respect, rate case expense is not unique from other
2 expense categories. Thus, retroactive recovery or refunding of prior rate
3 case expense should not be allowed.

4
5 **PARADISE VALLEY FIRE FLOW IMPROVEMENT PROJECTS**

6 Q. Is RUCO revising its position on Paradise Valley's fire flow projects and
7 the associated funding mechanism designated as the Paradise Valley
8 Public Safety Surcharge?

9 A. Yes. RUCO witness William A. Rigsby fully explains RUCO's revised
10 recommendations for the Paradise Valley's fire flow improvement projects
11 and the associated public safety surcharge in his surrebuttal testimony.

12
13 **RATE DESIGN AND PROOF OF RECOMMENDED REVENUE**

14 Q. Have you revised your Schedule presenting your recommended rate
15 designs?

16 A. Yes, as shown on Schedule SURR RLM-RD1, the rate design is
17 consistent with RUCO's recommended revenue allocations and
18 requirement as revised in RUCO's surrebuttal testimonies.

19
20 Q. For the Paradise Valley district is RUCO still supporting the five-tiered
21 inverted block structure?

22 A. No. RUCO has adopted a three-tiered rate design. The three-tiered
23 inverted block design, also proposed by Staff, when compared to the five-

1 tiered design proposed by the Company would generate a lower monthly
2 bill to residential customers with a 5/8 X 3/4 inch-meter consuming either
3 the average of 20,493 gallons or the median usage of 61,391 gallons per
4 month. Moreover, the five-tiered design does not provide any meaningful
5 conservation incentives, since customer's median use would have to
6 decline by over 40,000 gallons a month (or 67 percent) before receiving a
7 benefit of the lower cost per gallon consumed. Similarly, customer's
8 average use would have to decline by over 16,000 gallons a month (or 80
9 percent) before receiving a benefit of the lower cost per gallon consumed.

10
11 Q. Please provide a chart, which displays the impact of RUCO's
12 recommended rate design.

13 A. The chart below displays:

- 14 1. Current rates for both "average" and "median" use residential
15 customers with a 5/8 X 3/4 inch-meter;
- 16 2. Proposed rates for RUCO's recommended three-tiered
17 design; and
- 18 3. A comparison of RUCO's and the Company's recommended
19 rate increases, based on the Company's five-tiered design.

Average Residential Customer's monthly bill consumes 20,493 gallons:

Current Rate: \$49.21.

Proposed Rates:	RUCO 3-tier	RUCO 5-tier	AZ-AM's 5-tier
	\$56.63	\$59.97	\$70.26

Median Residential Customer's monthly bill consumes 61,391 gallons:

Current Rate: \$131.23.

Proposed Rates:	RUCO 3-tier	RUCO 5-tier	AZ-AM's 5-tier
	\$147.27	\$157.56	\$184.61

Q. Have you revised your Schedule presenting proof of your recommended revenue?

A. Yes, I have. As shown on Schedule SURR RLM-RD1, my recommended rate design will produce the recommended required revenue as revised in my surrebuttal testimony.

TYPICAL RESIDENTIAL BILL ANALYSIS

Q. Has RUCO revised its Schedule representing the financial impact of RUCO's recommended rate design on the typical residential customer?

A. Yes. The impact of RUCO's revised recommended revenues is presented on the district's Surrebuttal Schedule SURR RLM-RD2.

1 This typical bill analysis for residential customers shows the financial
2 impact with various levels of usage.

3

4 Q. Does this conclude your surrebuttal testimony?

5 A. Yes, it does.

AGUA FRIA WATER DISTRICT

TABLE OF CONTENTS TO RLM SURREBUTTAL SCHEDULES

SCH. NO.	PAGE NO.	TITLE
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SURR RLM-6	1	OPERATING INCOME
SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURREBUTTAL TESTIMONY, RLM		ACRM REVENUE
SURREBUTTAL TESTIMONY, RLM		LABOR EXPENSE
SURREBUTTAL TESTIMONY, RLM		TANK MAINTENANCE
SURREBUTTAL TESTIMONY, RLM		CHEMICAL EXPENSE
SURREBUTTAL TESTIMONY, RLM		WATER TESTING EXPENSE
SURR RLM-8	1	PROPERTY TAX COMPUTATION
SURR RLM-9	1	TEST YEAR DEPRECIATION EXPENSE
SURR RLM-13	1	INCOME TAX EXPENSE
SURR RD-1	1 & 2	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

SURREBUTTAL REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 96,976,396	\$ 64,339,595
2	Adjusted Operating Income (Loss)	\$ 2,601,288	\$ 2,593,789
3	Current Rate Of Return (L2 / L1)	2.68%	4.03%
4	Required Operating Income (L5 X L1)	\$ 8,146,017	\$ 4,503,772
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 5,544,729	\$ 1,909,983
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6578	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 9,192,203	\$ 3,110,665
9	Adjusted Test Year Revenue	\$ 18,818,613	\$ 18,818,614
10	Proposed Annual Revenue (L8 + L9)	\$ 28,010,816	\$ 21,929,279
11	Required Percentage Increase In Revenue (L8 / L9)	48.85%	16.53%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

SURREBUTTAL GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 4,503,772			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	2,593,789			
13	Required Increase In Operating Income (L11 - L12)		\$ 1,909,983		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 1,609,755			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	409,073			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 1,200,682		
17	Total Required Increase In Revenue (L13 + L16)		\$ 3,110,665		
CALCULATION OF INCOME TAX:				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 21,929,279	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			15,815,752	
20	Synchronized Interest (Col. (C), L37)			1,943,056	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 4,170,471	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 290,598
24	Fed. Taxable Income (L21 - L23)			\$ 3,879,873	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			1,205,257	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 1,319,157
31	Combined Federal And State Income Tax (L23 + L30)				\$ 1,609,755
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 409,073
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 1,200,682
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 64,339,595	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,943,056	

SURREBUTTAL RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 211,145,154	\$ (233,889)	\$ 210,911,265
2	CWIP - White Tanks	25,000,000	(25,000,000)	\$ -
3	Accumulated Depreciation	(20,033,433)	968,689	(19,064,744)
4	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 216,111,721</u>	<u>\$ (24,265,200)</u>	<u>\$ 191,846,521</u>
5	Advances In Aid Of Const.	\$ (98,233,813)	\$ -	\$ (98,233,813)
6	Contribution In Aid Of Const.	\$ (29,706,549)	\$ (3,432,286)	\$ (33,138,835)
7	Accumulated Amortization Of CIAC	1,435,287	28,016	1,463,303
8	NET CIAC (L6 + L7)	<u>\$ (28,271,263)</u>	<u>\$ (3,404,270)</u>	<u>\$ (31,675,532)</u>
9	Imputed Regulatory Advances	\$ -	\$ -	\$ -
10	Imputed Regulatory Contributions	\$ (796,965)	\$ -	\$ (796,965)
11	Customer Meter Deposits	\$ (19,040)	\$ -	\$ (19,040)
12	Deferred Income Taxes And Credits	\$ 2,839,311	\$ -	\$ 2,839,311
13	Investment Tax Credits	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 3,529,517	\$ (3,321,116)	\$ 208,401
15	Allowance For Working Capital	\$ 1,816,928	\$ (1,646,215)	\$ 170,713
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
17	Rounding	\$ (1)	\$ -	\$ (1)
18	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 96,976,396</u>	<u>\$ (32,636,800)</u>	<u>\$ 64,339,595</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SURREBUTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUTL ADJUST NO. 1 POST TY PLANT	(C) REVISED ADJUST NO. 1 ACCUMULTD DEPRECTN	(D) ADJUST NO. 2 CIAC FOR CWIP	(E) ADJUST NO. 3 ACC AMORT PER GB 18.7	(F) ADJUST NO. 4 UPIS PER GB 9.4	(G) ADJUST NO. 5 DEFERRED DEBITS	(H) REVISED ADJUST NO. 6 WORKING CAPITAL	(I) ADJUST NO. 7 WHITE TANKS CWIP	(J) RUCO ADJUSTED OCRB/EVRB
1	Gross Utility Plant In Service	\$ 211,145,154	\$ (252,470)	\$ 971,064	\$ -	\$ -	\$ (2,375)	\$ -	\$ -	\$ (25,000,000)	\$ 210,911,265
2	CWIP - White Tanks	25,000,000	-	971,064	-	-	16,206	-	-	-	\$ (19,064,744)
3	Accumulated Depreciation	(20,033,433)	-	\$ 971,064	-	-	\$ -	-	-	\$ (25,000,000)	\$ 191,846,521
4	Net Utility Plant In Service (Sum L1 & L3)	\$ 216,111,721	\$ (252,470)	\$ 971,064	\$ -	\$ -	\$ 16,206	\$ -	\$ -	\$ -	\$ -
5	Advances In Aid Of Const.	\$ (98,233,813)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (98,233,813)
6	Contribution In Aid Of Const.	\$ (29,706,549)	\$ -	\$ -	\$ (3,432,286)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (33,138,835)
7	Accumulated Amortization Of CIAC	1,435,287	-	-	-	28,016	-	-	-	-	1,463,303
8	NET CIAC (L6 + L7)	\$ (28,271,263)	\$ -	\$ -	\$ (3,432,286)	\$ 28,016	\$ -	\$ -	\$ -	\$ -	\$ (31,675,532)
9	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Imputed Regulatory Contributions	\$ (796,965)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (796,965)
11	Customer Meter Deposits	\$ (19,040)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (19,040)
12	Deferred Income Taxes And Credits	\$ 2,839,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,839,311
13	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Deferred Debits	\$ 3,529,517	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,321,116)	\$ -	\$ -	\$ 208,401
15	Allowance For Working Capital	\$ 1,816,928	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,646,215)	\$ -	\$ 170,713
16	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	Rounding	\$ (1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)
18	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	\$ 96,976,396	\$ (252,470)	\$ 971,064	\$ (3,432,286)	\$ 28,016	\$ 16,206	\$ (3,321,116)	\$ (1,646,215)	\$ (25,000,000)	\$ 64,339,595

SURREBUTAL ADJUSTMENTS:

Column (A): Surrebutal Adjustment No. 1 - Post Test-Year Plant Adjustment (Surrebutal Testimony, RLM)

References:

- Column (A): Company Schedule B-2
- Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (D): Adjustment No. 2 - Reinstate Company's Adjustment To Remove CIAC Associated With CWIP
- Column (E): Adjustment No. 3 - Conforming Adjustment Per Company Response To Staff DR GB 18.7
- Column (F): Adjustment No. 4 - Conforming Adjustment Per Company Response To Staff DR GB 9.4
- Column (G): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GB 17.1
- Column (H): Adjustment No. 7 - Allowance For Working Capital
- Column (I): Adjustment No. 6 - Remove Company's Adjustment To Include CWIP Associated With The White Tanks Project
- Column (J): Sum Of Columns (A), (B), (C), (D), (E), (F), (G) & (H)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 192,139	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	192,139	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 214,929	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	214,929	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 1,409,860	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(236,355)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (1,646,215)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	\$ (1,646,215)	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 1,440,677	\$ (71,074)	\$ 1,369,603	12.00	\$ 16,435,242
2	Purchased Water	901,467	-	901,467	86.87	78,310,438
3	Fuel & Power	1,954,815	-	1,954,815	32.42	63,375,102
4	Chemicals	1,121,555	(139,625)	981,930	28.47	27,955,547
5	Management Fees	2,775,604	-	2,775,604	(3.88)	(10,769,344)
6	Group Insurance	396,645	-	396,645	(4.64)	(1,842,218)
7	Pensions	240,413	-	240,413	45.00	10,818,585
8	Insurance Other Than Group	158,153	-	158,153	45.00	7,116,885
9	Customer Accounting	370,806	-	370,806	7.46	2,766,213
10	Rents	63,217	-	63,217	(10.68)	(675,271)
11	Depreciation & Amortization	4,397,190	(4,397,190)	-	-	-
12	Other Operating Expenses	1,603,545	(389,172)	1,214,372	30.00	36,431,169
	Taxes:					
13	Taxes Other Than Income	128,923	-	128,923	15.65	2,017,787
14	Property Taxes	803,071	16,314	819,385	212.50	174,119,327
15	Income Tax	3,352,198	(1,742,443)	1,609,755	42.04	67,674,426
16	Interest Expense	-	1,943,056	1,943,056	106.52	206,974,302
17	Total Appropriate Operating Expenses	<u>\$ 19,708,280</u>	<u>\$ (4,780,135)</u>	<u>\$ 14,928,145</u>		<u>\$ 680,708,190</u>
18	Expense Lag	Line 17, Col. (E) / (C)	45.60			
19	Revenue Lag	Company Response To RUCO DR 8	39.82			
20	Net Lag	Line 18 - Line 17	(5.78)			
21	RUCO Adjusted Expenses	Col. (C), Line 16	<u>\$ 14,928,145</u>			
22	Cash Working Capital	Line 19 X Line 20 / 365 Days	<u>(236,355)</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	1,409,860			
24	Difference	Line 21 - Line 22	<u>\$ (1,646,215)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 23	<u>\$ (1,646,215)</u>			

Referer Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

SURREBUTTAL OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 17,913,497	\$ -	\$ 17,913,497	\$ 3,110,665	\$ 21,024,162
2	Unmetered Water Revenues	905,117	-	905,117	-	905,117
3	Other Water Revenues	-	-	-	-	-
4	TOTAL OPERATING REVENUE	<u>\$ 18,818,614</u>	<u>\$ -</u>	<u>\$ 18,818,614</u>	<u>\$ 3,110,665</u>	<u>\$ 21,929,279</u>
	Operating Expenses:					
5	Labor	\$ 1,440,677	\$ (71,074)	\$ 1,369,603	\$ -	\$ 1,369,603
6	Purchased Water	901,467	-	901,467	-	901,467
7	Fuel & Power	1,954,815	-	1,954,815	-	1,954,815
8	Chemicals	1,121,555	(139,625)	981,930	-	981,930
9	Waste Disposal	(870)	870	-	-	-
10	Management Fees	2,775,604	-	2,775,604	-	2,775,604
11	Group Insurance	396,645	-	396,645	-	396,645
12	Pensions	240,413	-	240,413	-	240,413
13	Regulatory Expense	64,012	-	64,012	-	64,012
14	Insurance Other Than Group	158,153	-	158,153	-	158,153
15	Customer Accounting	370,806	-	370,806	-	370,806
16	Rents	63,217	-	63,217	-	63,217
17	General Office Expense	161,107	-	161,107	-	161,107
18	Miscellaneous	787,967	(5,376)	782,591	-	782,591
19	Maintenance Expense	591,329	(320,655)	270,674	-	270,674
20	Depreciation & Amortization	4,397,190	(20,784)	4,376,406	-	4,376,406
21	General Taxes - Property Taxes	803,071	16,314	819,385	-	819,385
22	General Taxes - Other	128,923	-	128,923	-	128,923
23	Income Tax	(138,756)	547,829	409,073	1,200,682	1,609,755
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 16,217,325</u>	<u>\$ 7,500</u>	<u>\$ 16,224,825</u>	<u>\$ 1,200,682</u>	<u>\$ 17,425,507</u>
26	OPERATING INCOME (LOSS)	<u>\$ 2,601,289</u>	<u>\$ (7,500)</u>	<u>\$ 2,593,789</u>	<u>\$ 1,909,983</u>	<u>\$ 4,503,772</u>

References:

- Column (A): Company Schedule C-1
- Column (B): RLM-7, Columns (B) Thru (H)
- Column (C): Column (A) + Column (B)
- Column (D): RLM-1, Pages 1 & 2
- Column (E): Column (C) + Column (D)

SURREBUTTAL SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUT'L ADJMT NO. 3 TANK MAINTENANCE	(C) SURREBUT'L ADJMT NO. 4 CHEMICAL EXPENSE	(D) SURREBUT'L ADJMT NO. 5 WATER TEST EXPENSE	(E) REVISED ADJMT NO. 1 PROPERTY TAX	(F) REVISED ADJMT NO. 2 DEPRECIATION & AMORTIZN	(G) ADJMT NO. 3 RATE CASE EXPENSE	(H) ADJMT NO. 4 WASTE DISPOSAL	(I) ADJMT NO. 5 AIP EXPENSE	(J) ADJMT NO. 6 LABOR EXPENSE	(K) ADJMT NO. 7 MISC. EXPENSE	(L) REVISED ADJMT NO. 8 INCOME TAX	(M) RUCO AS ADJ'D
1	Revenues:													
2	Metered Water Revenues	\$17,913,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,913,497
3	Unmetered Water Revenues	905,117	-	-	-	-	-	-	-	-	-	-	-	905,117
4	Other Water Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-
	TOTAL OPERATING REV.	<u>\$18,818,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,818,614</u>
5	Operating Expenses:													
6	Labor	\$ 1,440,877	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (33,409)	\$ (37,665)	\$ -	\$ -	\$ 1,369,603
7	Purchased Water	901,467	-	-	-	-	-	-	-	-	-	-	-	901,467
8	Fuel & Power	1,954,815	-	-	-	-	-	-	-	-	-	-	-	1,954,815
9	Chemicals	1,121,555	-	(139,625)	-	-	-	-	-	-	-	-	-	981,930
10	Waste Disposal	(870)	-	-	-	-	-	-	870	-	-	-	-	-
11	Management Fees	2,775,604	-	-	-	-	-	-	-	-	-	-	-	2,775,604
12	Group Insurance	396,645	-	-	-	-	-	-	-	-	-	-	-	396,645
13	Pensions	240,413	-	-	-	-	-	-	-	-	-	-	-	240,413
14	Regulatory Expense	64,012	-	-	-	-	-	-	-	-	-	-	-	64,012
15	Insurance Other Than Group	158,153	-	-	-	-	-	-	-	-	-	-	-	158,153
16	Customer Accounting	370,806	-	-	-	-	-	-	-	-	-	-	-	370,806
17	Rents	63,217	-	-	-	-	-	-	-	-	-	-	-	63,217
18	General Office Expense	161,107	-	-	-	-	-	-	-	-	-	-	-	161,107
19	Miscellaneous	787,967	-	-	74	-	-	-	-	-	-	(5,450)	-	782,591
20	Maintenance Expense	591,329	(320,655)	-	-	-	-	-	-	-	-	-	-	270,674
21	Depreciation & Amortization	4,397,190	-	-	-	-	(20,764)	-	-	-	-	-	-	4,376,406
22	General Taxes - Property Taxes	803,071	-	-	-	16,314	-	-	-	-	-	-	-	819,385
23	General Taxes - Other	128,923	-	-	-	-	-	-	-	-	-	-	-	128,923
24	Income Tax	(138,756)	-	-	-	-	-	-	-	-	-	-	547,829	(138,756)
25	Rounding	-	-	-	-	-	-	-	-	-	-	-	-	-
	TOTAL OPERATING EXP.	<u>\$16,217,325</u>	<u>\$ (320,655)</u>	<u>\$ (139,625)</u>	<u>\$ 74</u>	<u>\$ 16,314</u>	<u>\$ (20,764)</u>	<u>\$ -</u>	<u>\$ 870</u>	<u>\$ (33,409)</u>	<u>\$ (37,665)</u>	<u>\$ (5,450)</u>	<u>\$ 547,829</u>	<u>\$ 15,676,996</u>
26	OPERATING INC. (LOSS)	<u>\$ 2,601,289</u>												<u>\$ 3,141,618</u>

SURREBUTTAL ADJUSTMENTS:

- 3 Tank Maintenance
- 4 Chemical Expenses
- 5 Water Testing Expenses

REFERENCE:

- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM And Schedule RLM-10
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 18,818,614	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	18,818,614	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	21,929,279	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 59,566,507	
5	Average Annual Operating Revenues	Line 4 / 3	19,855,502	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 39,711,005
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,422,630	
8	10% Of CWIP	Line 7 X 10%		\$ 142,263
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 39,853,268
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 9,166,252	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	8.93915%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	8.93915%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 819,385
19	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1		803,071
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 16,314
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 16,314

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 1,229	0.00%	\$ -
2	302000	Franchises	321,997	0.00%	-
3	303200	Land & Land Rights SS	1,433,636	0.00%	-
4	303300	Land & Land Rights P	(28,462)	0.00%	-
5	303400	Land & Land Rights TD	624,652	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	9,020,159	2.50%	225,504
8	304200	Struct & Imp P	4,836,854	1.67%	80,775
9	304300	Struct & Imp WT	1,162,010	1.67%	19,406
10	304400	Struct & Imp TD	3,550,951	0.00%	-
11	304600	Struct & Imp Offices	173,285	4.63%	8,023
12	304800	Struct & Imp Misc	-	0.00%	-
13	305000	Collect & Impounding	-	2.50%	-
14	307000	Wells & Springs	11,874,350	3.33%	395,416
15	310100	Power Generation Equip Other	828,646	4.42%	36,626
16	311200	Pump Equip Electric	21,199,873	4.42%	937,034
17	311300	Pump Equip Diesel	11,872	4.42%	525
18	311500	Pump Equip Other	1,271,551	4.42%	56,203
19	320100	WT Equip Non-Media	9,503,375	4.00%	380,135
20	330000	Dist Reservoirs & Standpipe	9,495,115	1.67%	158,568
21	331001	TD Mains Not Classified By Size	5,717,924	1.53%	87,484
22	331100	TD Mains 4in & Less	21,371,153	1.53%	326,979
23	331200	TD Mains 6in to 8in	31,329,479	1.53%	479,341
24	331300	TD Mains 10in to 16in	27,284,414	1.53%	417,452
25	331400	TD Mains 18in And Greater	13,774,400	2.00%	275,488
26	332000	Fire Mains	89,876	2.00%	1,798
27	333000	Services	11,273,032	2.48%	279,571
28	334100	Meters	4,666,830	2.51%	117,137
29	334200	Meter Installations	1,583,277	2.51%	39,740
30	335000	Hydrants	11,793,410	2.00%	235,868
31	339100	Other P/E Intangible	-	0.00%	-
32	339500	Other P/E TD	-	0.00%	-
33	340100	Office Furniture & Equip	92,864	4.04%	3,752
34	340200	Comp & Periph Equip	74,675	10.00%	7,467
35	341100	Trans Equip Lt Duty Trks	202,656	22.00%	44,584
36	341200	Trans Equip Hvy Duty Trks	-	15.00%	-
37	342000	Stores Equipment	-	3.92%	-
38	343000	Tools, Shop, Garage Equip	8,607	4.02%	346
39	344000	Laboratory Equipment	-	3.71%	-
40	345000	Power Operated Equipment	30,559	5.20%	1,589
41	346100	Comm Equip Non-Telephone	1,462,700	10.30%	150,658
42	346300	Comm Equip Other	390,586	4.93%	19,256
43	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 206,427,533		\$ 4,786,726
44	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			186,438
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			4,973,163
45		POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			55,722
46		DEPRECIATION ON ACQUISITION ADJUSTMENT			230,973
47		AMORTIZATION OF REGULATORY ASSETS			2,918
48		AMORTIZATION OF CONTRIBUTIONS			(689,025)
49		AMORTIZATION OF REGULATORY CIAC			(197,344)
50		Rounding			(1)
51	TOTAL DEPRECIATION EXPENSE				\$ 4,376,406
52	Company As Filed				4,397,190
53	Difference				\$ (20,784)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (20,784)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. MDC-6, Column (C), L26 + L23	\$ 3,002,862
	LESS:		
2	Arizona State Tax	Line 11	73,847
3	Interest Expense	Note (A) Line 20	1,943,056
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 985,959
5	Federal Tax Rate	Sch. MDC-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 335,226
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 3,002,862
	LESS:		
8	Interest Expense	Note (A) Line 20	1,943,056
9	State Taxable Income	Line 7 - Line 8	\$ 1,059,806
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 73,847
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 335,226
13	State Income Tax Expense	Line 11	73,847
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 409,073
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(138,756)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 547,829
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 547,829

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 64,339,595
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,943,056

SURREBUTTAL RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	C1M1A - 5/8" & 3/4"	28,342	17	28,358	\$ 11.61	\$ 3,949,523	\$ 3,949,523
	Commodity Usage						
2	First Tier - First 4,000 Gals.	1,171,104	792	1,171,896	\$ 2.2636	\$ 2,652,736	
3	Second Tier - Next 9,000 Gals.	1,028,560	673	1,029,233	\$ 2.6794	\$ 2,757,678	
4	Third Tier - Over 13,000 Gals.	317,241	-	317,241	\$ 2.8394	\$ 900,787	
							\$ 6,311,201
5	C1M1B - 1"	4,711	58	4,769	\$ 29.70	\$ 1,699,572	\$ 1,699,572
	Commodity Usage						
6	First Tier - First 45,000 Gals.	588,528	8,192	596,720	\$ 2.6794	\$ 1,598,823	
7	Second Tier - Over 45,000 Gals.	75,925	-	75,925	\$ 2.8394	\$ 215,585	
							\$ 1,814,408
8	C1M1C - 1-1/2"	151	-	151	\$ 62.08	\$ 112,739	\$ 112,739
	Commodity Usage						
9	First Tier - First 100,000 Gals.	108,479	-	108,479	\$ 2.6794	\$ 290,653	
10	Second Tier - Over 100,000 Gals.	152,922	-	152,922	\$ 2.8394	\$ 434,212	
							\$ 724,865
11	C1M1D - 2"	187	-	187	\$ 93.11	\$ 208,547	\$ 208,547
	Commodity Usage						
12	First Tier - First 150,000 Gals.	209,433	-	209,433	\$ 2.6794	\$ 561,145	
13	Second Tier - Over 150,000 Gals.	280,576	-	280,576	\$ 2.8394	\$ 796,679	
							\$ 1,357,824
14	C1M1E - 3"	2	-	2	\$ 182.17	\$ 4,013	\$ 4,013
	Commodity Usage						
15	First Tier - First 300,000 Gals.	882	-	882	\$ 2.6794	\$ 2,362	
16	Second Tier - Over 300,000 Gals.	0	-	0	\$ 2.8394	\$ -	
							\$ 2,362
17	C1M1G - 6"	-	-	0	\$ 472.25	\$ -	\$ -
	Commodity Usage						
18	First Tier - First 800,000 Gals.	0	-	0	\$ 2.6794	\$ -	
19	Second Tier - Over 800,000 Gals.	0	-	0	\$ 2.8394	\$ -	
							\$ -
20	Total Residential Customers	33,393	75	33,468			
21	Total Residential Usage	3,933,650	9,657	3,943,307			
22	TOTAL RESIDENTIAL CUSTOMERS REVENUE						\$ 16,185,054
COMMERCIAL CUSTOMERS							
23	C2M1A - 5/8" & 3/4"	69	-	69	\$ 11.61	\$ 9,653	\$ 9,653
	Commodity Usage						
24	First Tier - First 13,000 Gals.	2,597	-	2,597	\$ 2.6794	\$ 6,958	
25	Second Tier - Over 13,000 Gals.	2,406	-	2,406	\$ 2.8394	\$ 6,832	
							\$ 13,790
26	C2M1B - 1"	123	1	124	\$ 29.70	\$ 44,014	\$ 44,014
	Commodity Usage						
27	First Tier - First 45,000 Gals.	30,583	264	30,848	\$ 2.6794	\$ 82,651	
28	Second Tier - Over 45,000 Gals.	25,134	0	25,134	\$ 2.8394	\$ 71,366	
							\$ 154,018
29	C2M1C - 1-1/2"	183	2	185	\$ 62.08	\$ 137,692	\$ 137,692
	Commodity Usage						
30	First Tier - First 100,000 Gals.	110,452	2,000	112,452	\$ 2.6794	\$ 301,299	
31	Second Tier - Over 100,000 Gals.	138,710	267	138,977	\$ 2.8394	\$ 394,617	
							\$ 695,916
32	C2M1D - 2"	311	0	312	\$ 93.11	\$ 348,194	\$ 348,194
	Commodity Usage						
33	First Tier - First 150,000 Gals.	287,425	750	288,175	\$ 2.6794	\$ 772,124	
34	Second Tier - Over 150,000 Gals.	428,063	208	428,270	\$ 2.8394	\$ 1,216,047	
							\$ 1,988,171
35	C2M1E - 3"	76	-	76	\$ 182.17	\$ 165,153	\$ 165,153
	Commodity Usage						
36	First Tier - First 300,000 Gals.	70,432	-	70,432	\$ 2.6794	\$ 188,713	
37	Second Tier - Over 300,000 Gals.	76,160	-	76,160	\$ 2.8394	\$ 216,250	
							\$ 404,964

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
ADJUSTED TEST-YEAR REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
38	C2M1F - 4" Commodity Usage	1	-	1	\$ 245.03	\$ 2,246	\$ 2,246
39	First Tier - First 400,000 Gals.	2,284	-	2,284	\$ 2.6794	\$ 6,121	
40	Second Tier - Over 400,000 Gals.	4,581	-	4,581	\$ 2.8394	\$ 13,007	\$ 19,127
41	C2M1G - 6" Commodity Usage	3	-	3	\$ 472.25	\$ 16,434	\$ 16,434
42	First Tier - First 800,000 Gals.	17,669	-	17,669	\$ 2.6794	\$ 47,341	
43	Second Tier - Over 800,000 Gals.	41,767	-	41,767	\$ 2.8394	\$ 118,595	\$ 165,936
44	C2M3 - Arizona Water Contract Commodity Usage	1	-	1	\$ -	\$ -	\$ -
45	First Tier - First 8,000 Gals.	17	-	17	\$ 2.2636	\$ 38	
46	Second Tier - Over 8,000 Gals.	1,984	-	1,984	\$ 2.6794	\$ 5,316	\$ 5,354
47	Total Commercial Customers	766	3	769			
48	Total Commercial Usage	1,240,264	3,490	1,243,754			
49	TOTAL COMMERCIAL CUSTOMERS REVENUE						\$ 4,170,663
OPA							
50	C4M2 - Agua Fria OPA - Prison	1	-	1	\$ 212.96	\$ 3,534.23	
51	All Commodity Usage	14,430	-	14,430	\$ 2.6794	\$ 38,663.06	
52	TOTAL OPA CUSTOMER REVENUE						\$ 42,197
SALE FOR RESALE							
53	C5M1 - Agua Fria OWU PI Surprise	4	-	4	\$ -	\$ -	
54	All Commodity Usage	123,440	-	123,440	\$ 0.7737	\$ 95,509.34	
55	TOTAL SALE FOR RESALE CUSTOMER REVENUE				\$ -		\$ 95,509
PRIVATE FIRE PROTECTION CUSTOMERS							
56	B6M04 - 4"	1	-	1	\$ 49.60	\$ 595	
57	C6M04 - 4"	82	-	82	\$ 38.38	\$ 37,935	
58	C6M06 - 6"	111	-	111	\$ 57.54	\$ 76,474	
59	C6M08 - 8"	36	-	36	\$ 76.72	\$ 33,400	
60	C6M12 - 12"	1	-	1	\$ 230.15	\$ 2,762	
61	E6M06 6"	1	-	1	\$ 178.28	\$ 1,248	
62	Commodity Usage	-	-	-	No Charge		
63	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						\$ 152,414
MISC IRRIGATION SALES							
64	C7M2 - Agua Fria Irrigation - Raw	4	-	4	\$ -	\$ -	
	All Commodity Usage	4,464	-	4,464	\$ 0.7737	\$ 3,454	
65	C8M2 - Agua Fria Non-Potable	1	-	1	\$ -	\$ -	
66	All Commodity Usage	152,821	-	152,821	\$ 0.9594	\$ 146,620	
67	TOTAL MISC IRRIGATION CUSTOMERS REVENUE						\$ 150,074
68	TOTAL RUCO TEST YEAR REVENUE PER BILL COUNT						\$ 20,795,911
69	Unreconciled Difference vs. Billed Revenues						228,251
70	REVENUE PER BILL COUNT						\$ 21,024,162
71	Other Revenue						905,117
72	ACRM Revenue						-
73	TOTAL REVENUE						\$ 21,929,279
74	ADJUSTED TEST-YEAR REVENUE PER FILING						\$ 21,929,279
75	Difference						\$ (0)

SURREBUTTAL TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A) PRESENT	(B) PRESENT	(C) COMPANY PROPOSED	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 13,689,331	77.05%	\$ 20,981,543	77.84%	\$ 16,185,054	77.83%
2	OTHER	4,078,231	22.95%	5,973,910	22.16%	4,610,857	22.17%
3	TOTAL	\$ 17,767,562	100.00%	\$ 26,955,453	100.00%	\$ 20,795,911	100.00%
ALLOCATION RATIOS							
4	FIX REVENUE	\$ 6,142,639	34.57%	\$ 8,890,833	32.98%	\$ 6,853,728	32.96%
5	VARIABLE REVENUE	11,624,923	65.43%	18,064,620	67.02%	13,942,183	67.04%
6	TOTAL	\$ 17,767,562	100.00%	\$ 26,955,453	100.00%	\$ 20,795,911	100.00%
RES. G-1 (5/8" X 3/4") RATE DESIGN							
7	BASIC MONTHLY CHARGE	\$ 10.45		\$ 15.00		\$ 11.61	
	COMMODITY CHARGE						
	PRESENT		PROPOSED				
8	First Tier - First 4,000 Gals.	First Tier - First 4,000 Gals.	\$ 1.5398	\$ 2.9256		\$ 2.2636	
9	Second Tier - Next 9,000 Gals.	Second Tier - Next 9,000 Gals.	\$ 2.2198	\$ 3.4629		\$ 2.6794	
10	Third Tier - Over 13,000 Gals.	Third Tier - Over 13,000 Gals.	\$ 2.6468	\$ 3.6598		\$ 2.8394	
RESIDENTIAL BILL COMPARISONS							
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL		% OF AVERAGE MONTH USAGE OF 7400 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	1,850	\$ 13.30	\$ 15.79	\$ 2.50	18.76%
12		50.00%	3,700	\$ 16.15	\$ 19.98	\$ 3.83	23.74%
13		100.00%	7,400	\$ 24.16	\$ 29.77	\$ 5.61	23.24%
14		150.00%	11,100	\$ 32.37	\$ 39.68	\$ 7.31	22.60%
15		200.00%	14,800	\$ 41.35	\$ 49.89	\$ 8.53	20.64%

HAVASU WATER DISTRICT

TABLE OF CONTENTS TO RLM SURREBUTTAL SCHEDULES

SCH. NO.	PAGE NO.	TITLE
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SURR RLM-5(1)	1	SUMMARY OF WORKING CAPITAL
SURR RLM-5(2)	1	LEAD/LAG STUDY - CASH WORKING CAPITAL
SURR RLM-6	1	OPERATING INCOME
SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
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SURR RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 2 - TEST YEAR DEPRECIATION EXPENSE
SURR RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 7 - INCOME TAX EXPENSE
SURR RD-1	1 & 2	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 4,221,474	\$ 3,175,404
2	Adjusted Operating Income (Loss)	\$ (131,419)	\$ 46,436
3	Current Rate Of Return (L2 / L1)	-3.11%	1.46%
4	Required Operating Income (L5 X L1)	\$ 354,604	\$ 222,156
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 486,023	\$ 175,721
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6785	1.5286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 815,803	\$ 268,604
9	Adjusted Test Year Revenue	\$ 1,026,587	\$ 1,177,522
10	Proposed Annual Revenue (L8 + L9)	\$ 1,842,390	\$ 1,446,126
11	Required Percentage Increase In Revenue (L8 / L9)	79.47%	22.81%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-14

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3458			
3	Subtotal (L1 - L2)	0.6542			
4	Revenue Conversion Factor (L1 / L3)	1.5286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	29.6802%			
9	Effective Federal Income Tax Rate (L7 X L8)	27.6121%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	34.5801%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 222,156			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	46,436			
13	Required Increase In Operating Income (L11 - L12)		\$ 175,721		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 66,804			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(26,080)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 92,884		
17	Total Required Increase In Revenue (L13 + L16)		\$ 268,604		
CALCULATION OF INCOME TAX:					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 1,446,126	
20	Synchronized Interest (Col. (C), L37)			1,157,166	
21	Arizona Taxable Income (L18 - L19 - L20)			95,774	
22	Arizona State Income Tax Rate			\$ 193,186	
23	Arizona Income Tax (L21 X L22)			6.9680%	\$ 13,461
24	Fed. Taxable Income (L21 - L23)			\$ 179,725	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			31,093	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 53,343
31	Combined Federal And State Income Tax (L23 + L30)				\$ 66,804
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (26,080)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 92,884
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				29.68%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 3,175,404	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 95,774	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'ED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 9,837,304	\$ (816,311)	\$ 9,020,993
2	Accumulated Depreciation	\$ (1,327,687)	18,659	\$ (1,309,028)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 8,509,617</u>	<u>\$ (797,652)</u>	<u>\$ 7,711,965</u>
4	Advances In Aid Of Const.	\$ (3,217,334) 0	\$ -	\$ (3,217,334)
5	Contribution In Aid Of Const.	\$ (1,355,090)	\$ (10,645)	\$ (1,365,735)
6	Accumulated Amortization Of CIAC	\$ -	\$ -	\$ -
7	NET CIAC (L6 + L7)	<u>\$ (1,355,090)</u>	<u>\$ (10,645)</u>	<u>\$ (1,365,735)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (113,427)	\$ -	\$ (113,427)
10	Customer Meter Deposits	\$ (512)	\$ -	\$ (512)
11	Deferred Income Taxes And Credits	\$ 131,385	\$ -	\$ 131,385
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 155,374	\$ (145,701)	\$ 9,673
14	Allowance For Working Capital	\$ 111,462	\$ (92,072)	\$ 19,390
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ (1)	\$ -	\$ (1)
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 4,221,474</u>	<u>\$ (1,046,070)</u>	<u>\$ 3,175,404</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) SURREBUT'L ADJMT NO. 1 REMOVE GATEWAY	(C) ADJMT NO. 1 ACCUMULT'D DEPRECTN	(D) ADJMT NO. 2 CIAC FOR CWIP	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 9,837,304	\$ (816,311)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,020,993
2	Accumulated Depreciation	(1,327,687)	14,000	4,659	-	-	-	-	(1,309,028)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 8,509,617	\$ (802,311)	\$ 4,659	\$ -	\$ -	\$ -	\$ -	\$ 7,711,965
4	Advances In Aid Of Const.	\$ (3,217,334)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,217,334)
5	Contribution In Aid Of Const.	\$ (1,355,090)	\$ -	\$ -	\$ (10,645)	\$ -	\$ -	\$ -	\$ (1,365,735)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	-	-	-
7	NET CIAC (L5 + L6)	\$ (1,355,090)	\$ -	\$ -	\$ (10,645)	\$ -	\$ -	\$ -	\$ (1,365,735)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (113,427)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (113,427)
10	Customer Meter Deposits	\$ (512)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (512)
11	Deferred Income Taxes And Credits	\$ 131,385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,385
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 155,374	\$ -	\$ -	\$ -	\$ -	\$ (145,701)	\$ -	\$ 9,673
14	Allowance For Working Capital	\$ 111,462	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (92,072)	\$ 19,390
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ (1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1)
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 4,221,474	\$ (802,311)	\$ 4,659	\$ (10,645)	\$ -	\$ (145,701)	\$ (92,072)	\$ 3,175,404

References:

- Column (A): Company Schedule B-2
- Column (B): Remove Gateway Plant and Transfer to Mohave Water and Wastewater Districts
- Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See Direct RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (D): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Recalculate Deferred Regulatory Assets
- Column (G): Adjustment No. 6 - Allowance For Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 4,486	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	4,486	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 4,556	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	4,556	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 102,420	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	10,348	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (92,072)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (92,072)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 204,741	\$ (2,259)	\$ 202,482	12.0000	\$ 2,429,784
2	Purchased Water	-	-	-	86.8700	-
3	Fuel & Power	111,139	-	111,139	32.4200	3,603,126
4	Chemicals	88,249	7,916	96,165	28.4700	2,737,818
5	Waste Disposal	-	52	52	30.0000	1,560
6	Management Fees	166,461	(2,004)	164,457	(3.8800)	(638,095)
7	Group Insurance	63,729	-	63,729	(4.6445)	(295,989)
8	Pensions	35,586	-	35,586	45.0000	1,601,370
9	Insurance Other Than Group	8,974	-	8,974	45.0000	403,830
10	Customer Accounting	22,062	-	22,062	7.4600	164,583
11	Rents	5,059	-	5,059	(10.6818)	(54,039)
12	Depreciation & Amorization	291,351	(291,351)	-	-	-
13	Other Operating Expenses	258,745	(159,754)	98,991	30.0000	2,969,725
	Taxes:					
14	Taxes Other Than Income	17,638	-	17,638	15.6511	276,054
15	Property Taxes	44,112	10,283	54,395	212.5000	11,558,874
16	Income Tax	147,572	(80,768)	66,804	42.0402	2,808,447
17	Interest Expense	-	95,774	95,774	106.5200	10,201,874
18	Total Appropriate Operating Expenses	<u>\$ 1,465,418</u>	<u>\$ (422,111)</u>	<u>\$ 1,043,307</u>		<u>\$ 37,768,921</u>
19	Expense Lag	Line 18, Col. (E) / (C)	36.20			
20	Revenue Lag		<u>39.82</u>			
21	Net Lag	Line 20 - Line 19	3.62			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 1,043,307</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>10,348</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	102,420			
25	Difference	Line 23 - Line 24	<u>\$ (92,072)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (92,072)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 1,003,476	\$ 150,935	\$ 1,154,411	\$ 268,604	\$ 1,423,015
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	23,110	-	23,110	-	23,110
4	TOTAL OPERATING REVENUE	<u>\$ 1,026,587</u>	<u>\$ 150,935</u>	<u>\$ 1,177,522</u>	<u>\$ 268,604</u>	<u>\$ 1,446,126</u>
	Operating Expenses:					
5	Labor	\$ 204,741	\$ (2,259)	\$ 202,482	\$ -	\$ 202,482
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	111,139	-	111,139	-	111,139
8	Chemicals	88,249	7,916	96,165	-	96,165
9	Waste Disposal	(52)	52	-	-	-
10	Management Fees	166,461	(2,004)	164,457	-	164,457
11	Group Insurance	63,729	-	63,729	-	63,729
12	Pensions	35,586	-	35,586	-	35,586
13	Regulatory Expense	3,840	(0)	3,840	-	3,840
14	Insurance Other Than Group	8,974	-	8,974	-	8,974
15	Customer Accounting	22,062	-	22,062	-	22,062
16	Rents	5,059	-	5,059	-	5,059
17	General Office Expense	13,616	-	13,616	-	13,616
18	Miscellaneous	42,644	3,606	46,250	-	46,250
19	Maintenance Expense	198,697	(159,572)	39,125	-	39,125
20	Depreciation & Amortization	291,351	(18,702)	272,649	-	272,649
21	General Taxes - Property Taxes	44,112	10,283	54,395	-	54,395
22	General Taxes - Other	17,638	-	17,638	-	17,638
23	Income Tax	(159,839)	133,759	(26,080)	92,884	66,804
24	Rounding	(2)	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 1,158,005</u>	<u>\$ (26,921)</u>	<u>\$ 1,131,086</u>	<u>\$ 92,884</u>	<u>\$ 1,223,969</u>
26	OPERATING INCOME (LOSS)	<u>\$ (131,419)</u>	<u>\$ 177,856</u>	<u>\$ 46,436</u>	<u>\$ 175,721</u>	<u>\$ 222,156</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUTL ACRM ADJMT NO. 1	(C) SURREBUTL LABOR ADJMT NO. 2	(D) SURREBUTL TANK MAINTENANCE ADJMT NO. 3	(E) SURREBUTL CHEMICAL EXPENSE ADJMT NO. 4	(F) SURREBUTL WATER TEST EXPENSE ADJMT NO. 5	(G) PROPERTY TAX ADJMT NO. 1	(H) DEPRECIATN & AMORTIZN ADJMT NO. 2	(I) EXPENSE ADJMT NO. 3	(J) WASTE DISPOSAL ADJMT NO. 4	(K) AIP EXPENSE ADJMT NO. 5	(L) ADJMT NO. 6	(M) MISC. EXPENSES ADJMT NO. 7	(N) INCOME TAX ADJMT NO. 8	(O) RUCO AS ADJTD
1	Revenues:	\$ 1,003,476	\$ 150,935													
2	Miscellaneous Water Revenues															
3	Unrelated Water Revenues	23,110														
4	Other Water Revenues	\$ 1,026,587	\$ 150,935													
5	TOTAL OPERATING REV.															
6	Operating Expenses:	\$ 204,741	\$ (2,259)													
7	Labor															
8	Purchased Water	111,139														
9	Fuel & Power	88,249														
10	Chemicals	(52)														
11	Waste Disposal	166,481														
12	Management Fees	63,729														
13	Penalties	35,586														
14	Regulatory Expense	8,460														
15	Insurance Other Than Group	8,874														
16	Customer Accounting	22,082														
17	General Office Expense	5,059														
18	Miscellaneous	13,816														
19	Maintenance Expense	42,844														
20	Depreciation & Amortization	198,897														
21	General Taxes - Property Taxes	281,351														
22	General Taxes - Other	44,112														
23	Income Tax	17,838														
24	Rounding	(159,839)														
25	TOTAL OPERATING EXP.	\$ 1,158,085	\$ (2,259)	\$ (159,572)	\$ (3,794)	\$ 7,916	\$ 3,794	\$ 10,283	\$ (16,702)	\$ (0)	\$ 52	\$ (2,004)	\$ -	\$ (188)	\$ 133,759	\$ 1,131,086
26	OPERATING INC. (LOSS)	\$ (131,410)														\$ 46,435

SURREBUTL ADJUSTMENTS:
Column A: Company as Filed
Column B: ACRM Revenue
Column C: Labor
Column D: Tank Maintenance
Column E: Chemical Expense
Column F: Water Testing
Column G: Property Tax Computation

REFERENCE:
Company C-2 as Filed
RLM Testimony
RLM Testimony
RLM Testimony
RLM Testimony
RLM Testimony
RLM Testimony and SURR Schedule B

SURREBUTL ADJUSTMENTS:
Column H: Depreciation And Amortization Expense
Column I: Rate Case Expense
Column J: Waste Disposal
Column K: Annual Incentive Pay Program Expense
Column L: Intentionally Left Blank
Column M: Miscellaneous Expense
Column N: Income Tax

REFERENCE:
RLM Testimony and SURR Schedule RLM-9
RLM Testimony
RLM Testimony
RLM Testimony
RLM Testimony and SURR Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 1,177,522	
2	Adjusted Test Year Revenue	Schedule RLM-7	1,177,522	
3	RUCO Proposed Revenue	Schedule RLM-6	1,446,126	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 3,801,169	
5	Average Annual Operating Revenues	Line 4 / 3	1,267,056	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 2,534,112
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 100,797	
8	10% Of CWIP	Line 7 X 10%		\$ 10,080
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 2,544,192
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 585,164	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	9.30%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.30%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 54,395
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		44,112
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 10,283
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 10,283

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMMISSION AUTHORIZED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 10,144	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	303200	Land & Land Rights SS	47,343	0.00%	-
4	303300	Land & Land Rights P	-	0.00%	-
5	303500	Land & Land Rights TD	-	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	2,033,779	2.79%	56,742
8	304200	Struct & Imp P	99,968	0.00%	-
9	304300	Struct & Imp WT	-	0.00%	-
10	304400	Struct & Imp TD	-	0.00%	-
11	304600	Struct & Imp Offices	20,697	2.03%	420
12	304800	Struct & Imp Misc	-	0.00%	-
13	305000	Collect & Impounding	148,253	2.54%	3,766
14	306000	Lakes, Rivers, Other Intakes	-	0.00%	-
15	307000	Wells & Springs	385,744	2.54%	9,798
16	310100	Power Generation Equip Other	580	5.12%	30
17	311200	Pump Equip Electric	1,295,271	3.71%	48,055
18	311300	Pump Equip Diesel	-	0.00%	-
19	311500	Pump Equip Other	4,202	0.00%	-
20	320100	WT Equip Non-Media	258,942	12.00%	31,073
21	330000	Dist Reservoirs & Standpipe	1,237,149	2.33%	28,826
22	331001	TD Mains Not Classified by Size	778,740	2.13%	16,587
23	331100	TD Mains 4in & Less	409,286	2.13%	8,718
24	331200	TD Mains 6in to 8in	850,235	2.13%	18,110
25	331300	TD Mains 10in to 16in	730,665	2.13%	15,563
26	333000	Services	278,916	2.89%	8,061
27	334100	Meters	175,586	3.52%	6,181
28	334200	Meter Installations	17,253	3.52%	607
29	335000	Hydrants	-	0.00%	-
30	339100	Other P/E Intangible	-	0.00%	-
31	3392500	Other P/E SS	33,463	0.00%	-
32	340100	Office Furniture & Equip	3,254	4.10%	133
33	340200	Comp & Periph Equip	17,522	4.10%	718
34	341100	Trans Equip Lt Duty Trks	76,510	25.00%	19,128
35	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
36	342000	Stores Equipment	-	3.93%	-
37	343000	Tools, Shop, Garage Equip	17,822	7.55%	1,346
38	344000	Laboratory Equipment	460	3.06%	14
39	345000	Power Operated Equipment	33,093	9.23%	3,054
40	346100	Comm Equip Non-Telephone	11,702	4.10%	480
41	346300	Comm Equip Other	44,414	6.19%	2,749
42	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 9,020,993		\$ 280,158
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			25,755
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 305,913
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			834
48		AMORTIZATION OF CONTRIBUTIONS			(6,011)
49		AMORTIZATION OF REGULATORY CIAC			(28,087)
50		Rounding			-
51	TOTAL	DEPRECIATION EXPENSE			\$ 272,649
52	Company As Filed				291,351
53	Difference				\$ (18,702)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (18,702)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 20,356
	LESS:		
2	Arizona State Tax	Line 11	(5,255)
3	Interest Expense	Note (A) Line 20	95,774
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (70,163)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	29.68%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (20,825)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 20,356
	LESS:		
8	Interest Expense	Note (A) Line 20	95,774
9	State Taxable Income	Line 7 - Line 8	\$ (75,418)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (5,255)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (20,825)
13	State Income Tax Expense	Line 11	(5,255)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (26,080)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(159,839)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 133,759
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 133,759
NOTE (A):			
Interest Synchronization:			
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 3,175,404	
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%	
20	Interest Expense (L18 X L19)	\$ 95,774	

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINT'S	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMINT'S	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	H1M1A - 5/8" & 3/4" Commodity Usage	1,679	(8)	1,671	\$ 22.04	\$ 441,854	\$ 441,854
2	First Tier - First 4,000 Gals.	59,838	(380)	59,458	\$ 3.1736	\$ 188,693	
3	Second Tier - Next 9,000 Gals.	67,209	(542)	66,667	\$ 3.3019	\$ 220,129	
4	Third Tier - Over 13,000 Gals.	69,397	-	69,397	\$ 3.5851	\$ 248,793	
					\$ -		\$ 657,615
5	H1M1B - 1" Commodity Usage	1	-	1	\$ 37.92	\$ 295	\$ 295
6	First Tier - First 30,000 Gals.	79	-	79	\$ 3.3019	\$ 261	
7	Second Tier - Over 30,000 Gals.	63	-	63	\$ 3.5851	\$ 226	
							\$ 487
8	H1M1D - 2" Commodity Usage	1	-	1	\$ 74.61	\$ 950	\$ 950
9	First Tier - First 60,000 Gals.	377	-	377	\$ 3.3019	\$ 1,245	
10	Second Tier - Over 60,000 Gals.	0	-	0	\$ 3.5851	\$ -	
							\$ 1,245
11	H1M1F - 4" Commodity Usage	2	-	2	\$ 128.41	\$ 3,592	\$ 3,592
12	First Tier - First 110,000 Gals.	1,992	-	1,992	\$ 3.3019	\$ 6,577	
13	Second Tier - Over 110,000 Gals.	4,381	-	4,381	\$ 3.5851	\$ 15,706	
							\$ 22,284
14	H1M3D - Apt 2" Commodity Usage	0	-	0	\$ 11.02	\$ 11	\$ 11
15	First Tier - First 60,000 Gals.	53	-	53	\$ 3.3019	\$ 175	
16	Second Tier - Over 60,000 Gals.	0	-	0	\$ 3.5851	\$ -	
							\$ 175
17	H1M3F - Apt 4" Commodity Usage	40	-	40	\$ 11.02	\$ 5,333	\$ 5,333
18	First Tier - First 110,000 Gals.	254	-	254	\$ 3.3019	\$ 839	
19	Second Tier - Over 110,000 Gals.	76	-	76	\$ 3.5851	\$ 272	
							\$ 1,111
20	H1M3H - Apt 4" - Valley Manor Commodity Usage	73	-	73	\$ 11.02	\$ 9,597	\$ 9,597
21	First Tier - First 110,000 Gals.	1,430	-	1,430	\$ 3.3019	\$ 4,722	
22	Second Tier - Over 110,000 Gals.	2,748	-	2,748	\$ 3.5851	\$ 9,852	
							\$ 14,574
23	H1M3J - Apt 4" - Kenjen RV Commodity Usage	111	-	111	\$ 11.02	\$ 14,610	\$ 14,610
24	First Tier - First 110,000 Gals.	1,401	-	1,401	\$ 3.3019	\$ 4,626	
25	Second Tier - Over 110,000 Gals.	271	-	271	\$ 3.5851	\$ 972	
							\$ 5,598
26	H1M3K - Apt 4" - HV Falls RV Commodity Usage	280	-	280	\$ 11.02	\$ 36,954	\$ 36,954
27	First Tier - First 110,000 Gals.	1,253	-	1,253	\$ 3.3019	\$ 4,137	
28	Second Tier - Over 110,000 Gals.	796	-	796	\$ 3.5851	\$ 2,854	
							\$ 6,991
29	H1M3L - Apt 1" - LH RV Commodity Usage	38	-	38	\$ 11.02	\$ 4,969	\$ 4,969
30	First Tier - First 30,000 Gals.	330	-	330	\$ 3.3019	\$ 1,090	
31	Second Tier - Over 30,000 Gals.	1,747	-	1,747	\$ 3.5851	\$ 6,263	
							\$ 7,353
32	H1M3M - Apt 1" - D Hills RV Commodity Usage	99	-	99	\$ 11.02	\$ 13,045	\$ 13,045
33	First Tier - First 30,000 Gals.	503	-	503	\$ 3.3019	\$ 1,661	
34	Second Tier - Over 30,000 Gals.	799	-	799	\$ 3.5851	\$ 2,864	
							\$ 4,525
35	H1M3P - Apt 6" - Hav Resort Commodity Usage	166	-	166	\$ 11.02	\$ 21,915	\$ 21,915
36	First Tier - First 500,000 Gals.	5,777	-	5,777	\$ 3.3019	\$ 19,076	
37	Second Tier - Over 500,000 Gals.	526	-	526	\$ 3.5851	\$ 1,885	
38	Total Residential Customers	2,654	(8)	2,646			\$ 20,961
39	Total Residential Usage	227,603	(922)	226,681			
40	TOTAL RESIDENTIAL CUSTOMERS REVENUE						\$ 1,296,041

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
ADJUSTED TEST-YEAR REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
COMMERCIAL CUSTOMERS							
34	H2M1A - 5/8" & 3/4"	38	-0.2	38	\$ 22.04	\$ 10,073	\$ 10,073
	Commodity Usage						
35	First Tier - First 13,000 Gals.	3,229	-26.0	3,203	\$ 3.3019	\$ 10,576	
36	Second Tier - Over 13,000 Gals.	5,349	-0.9	5,348	\$ 3.5851	\$ 19,173	
							\$ 29,749
37	H2M1B - 1"	10	-0.3	10	\$ 37.92	\$ 4,379	\$ 4,379
	Commodity Usage						
38	First Tier - First 30,000 Gals.	2,145	-90.0	2,055	\$ 3.3019	\$ 6,785	
39	Second Tier - Over 30,000 Gals.	5,041	-91.9	4,949	\$ 3.5851	\$ 17,743	
							\$ 24,528
40	H2M1D - 2"	22	-0.1	22	\$ 74.61	\$ 19,903	\$ 19,903
	Commodity Usage						
41	First Tier - First 60,000 Gals.	9,042	-60.0	8,982	\$ 3.3019	\$ 29,658	
42	Second Tier - Over 60,000 Gals.	11,161	-15.5	11,146	\$ 3.5851	\$ 39,958	
							\$ 69,615
43	H2M1E - 3"	5	0.0	5	\$ 101.51	\$ 5,600	\$ 5,600
	Commodity Usage						
44	First Tier - First 90,000 Gals.	814	0.0	814	\$ 3.3019	\$ 2,688	
45	Second Tier - Over 90,000 Gals.	419	0.0	419	\$ 3.59	\$ 1,502	
							\$ 4,190
46	Total Commercial Customers	<u>75</u>	<u>-1</u>	<u>75</u>			
47	Total Commercial Usage	<u>37,200</u>	<u>-284</u>	<u>36,916</u>			
48	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 168,038</u>

64	TOTAL RUCO TEST YEAR REVENUE PER BILL COUNT	\$ 1,464,078
65	Unreconciled Difference vs. Billed Revenues	(41,062)
66	REVENUE PER BILL COUNT	<u>1,423,016</u>
67	Other Revenue	23,110
68	ACRM Revenue	-
69	TOTAL REVENUE	<u>\$ 1,446,126</u>
70	PROPOSED REVENUE PER FILING	<u>\$ 1,446,126</u>
71	Difference	\$ 0

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
	REVENUE ALLOCATION						
1	RESIDENTIAL	\$ 917,232	88.44%	\$ 1,646,824	88.52%	\$ 1,296,041	88.52%
2	OTHER	119,942	11.56%	213,518	11.48%	168,038	11.48%
3	TOTAL	<u>\$ 1,037,174</u>	<u>100.00%</u>	<u>\$ 1,860,342</u>	<u>100.00%</u>	<u>\$ 1,464,078</u>	<u>100.00%</u>
	ALLOCATION RATIOS						
4	FIX REVENUE	\$ 470,144	45.33%	\$ 753,600	40.51%	\$ 593,078	40.51%
5	VARIABLE REVENUE	567,030	54.67%	1,106,743	59.49%	871,000	59.49%
6	TOTAL	<u>\$ 1,037,174</u>	<u>100.00%</u>	<u>\$ 1,860,342</u>	<u>100.00%</u>	<u>\$ 1,464,078</u>	<u>100.00%</u>
	RES. G-1 (5/8" X 3/4") RATE DESIGN						
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 17.40		\$ 28.00		\$ 22.04	
	COMMODITY CHARGE						
	PRESENT PROPOSED						
8	First Tier - First 4,000 Gals.	First Tier - First 4,000 Gals.	\$ 1.6802	\$ 4.0325	\$ 3.1736		
9	Second Tier - Next 9,000 Gals.	Second Tier - Next 9,000 Gals.	\$ 2.1852	\$ 4.1956	\$ 3.3019		
10	Third Tier - Over 13,000 Gals.	Third Tier - Over 13,000 Gals.	\$ 2.5002	\$ 4.5554	\$ 3.5851		
	RESIDENTIAL BILL COMPARISONS						
	COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	% OF AVERAGE MONTH USAGE OF 9705 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	2,426	\$ 21.48	\$ 29.74	\$ 8.26	38.46%
12		50.00%	4,853	\$ 25.98	\$ 37.44	\$ 11.45	44.07%
13		100.00%	9,705	\$ 35.55	\$ 52.63	\$ 17.08	48.06%
14		150.00%	14,558	\$ 47.68	\$ 70.03	\$ 22.35	46.87%
15		200.00%	19,410	\$ 59.81	\$ 87.43	\$ 27.61	46.17%

MOHAVE WATER DISTRICT

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REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 12,041,310	\$ 10,561,020
2	Adjusted Operating Income (Loss)	\$ 37,140	\$ 360,802
3	Current Rate Of Return (L2 / L1)	0.31%	3.42%
4	Required Operating Income (L5 X L1)	\$ 1,011,470	\$ 738,866
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 974,330	\$ 378,064
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6990	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 1,655,410	\$ 615,728
9	Adjusted Test Year Revenue	\$ 5,113,631	\$ 5,113,631
10	Proposed Annual Revenue (L8 + L9)	\$ 6,769,041	\$ 5,729,359
11	Required Percentage Increase In Revenue (L8 / L9)	32.37%	12.04%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 738,866			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	360,802			
13	Required Increase In Operating Income (L11 - L12)		\$ 378,064		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 264,235			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	26,571			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 237,664		
17	Total Required Increase In Revenue (L13 + L16)		\$ 615,728		
CALCULATION OF INCOME TAX					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 5,729,359	
20	Synchronized Interest (Col. (C), L37)			4,726,258	
21	Arizona Taxable Income (L18 - L19 - L20)			318,534	
22	Arizona State Income Tax Rate			\$ 684,567	
23	Arizona Income Tax (L21 X L22)			6.9680%	
24	Fed. Taxable Income (L21 - L23)			\$ 636,867	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			102,635	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)			\$ 216,535	
31	Combined Federal And State Income Tax (L23 + L30)			\$ 264,235	
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)			\$ 26,571	
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)			\$ 237,664	
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 10,561,020	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 318,534	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 28,800,225	\$ 753,728	\$ 29,553,953
2	Accumulated Depreciation	\$ (13,084,198)	129,951	\$ (12,954,247)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 15,716,027</u>	<u>\$ 883,679</u>	<u>\$ 16,599,706</u>
4	Advances In Aid Of Const.	\$ (5,947,009)	\$ (291,910)	\$ (6,238,919)
5	Contribution In Aid Of Const.	\$ (107,545)	\$ (94,453)	\$ (201,998)
6	Accumulated Amortization Of CIAC	\$ -	(27,517)	\$ (27,517)
7	NET CIAC (L6 + L7)	<u>\$ (107,545)</u>	<u>\$ (121,969)</u>	<u>\$ (229,514)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (1,157,044)	\$ -	\$ (1,157,044)
10	Customer Meter Deposits	\$ (7,800)	\$ -	\$ (7,800)
11	Deferred Income Taxes And Credits	\$ 1,360,455	\$ -	\$ 1,360,455
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,749,805	\$ (1,649,972)	\$ 99,833
14	Allowance For Working Capital	\$ 434,422	\$ (300,118)	\$ 134,304
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ (1)	\$ -	\$ (1)
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 12,041,310</u>	<u>\$ (1,480,290)</u>	<u>\$ 10,561,020</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) SURREBT ADJ. 1 MOVE GATEWAY	(C) SURREBT ADJ. 2 BIG BEND ACTUAL COST	(D) ADJMT NO. 1 ACCUMULTD DEPRECTN	(E) ADJMT NO. 2 CIAC FOR CWIP	(F) ADJMT NO. 3 ACC AMORT PER GB 18.7	(G) ADJMT NO. 4	(H) ADJMT NO. 5 DEFERRED DEBITS	(I) ADJMT NO. 6 WORKING CAPITAL	(J) RUCO ADJTD OCRB/VRB
1	Gross Utility Plant In Service	\$ 28,800,225	\$ 721,333	\$ 32,395	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,553,953
2	Accumulated Depreciation	(13,084,198)	(45,790)	-	175,741	-	-	-	-	-	(12,954,247)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 15,716,027	\$ 675,543	\$ 32,395	\$ 175,741	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,599,706
4	Advances In Aid Of Const.	\$ (5,947,009)	\$ -	\$ -	\$ -	\$ (291,910)	\$ -	\$ -	\$ -	\$ -	\$ (6,238,919)
5	Contribution In Aid Of Const.	\$ (107,545)	\$ -	\$ -	\$ -	\$ (94,453)	\$ -	\$ -	\$ -	\$ -	\$ (201,998)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	(27,517)	-	-	-	(27,517)
7	NET CIAC (L5 + L6)	\$ (107,545)	\$ -	\$ -	\$ -	\$ (94,453)	\$ (27,517)	\$ -	\$ -	\$ -	\$ (229,514)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (1,157,044)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,157,044)
10	Customer Meter Deposits	\$ (7,800)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,800)
11	Deferred Income Taxes And Credits	\$ 1,360,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,360,455
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,749,805	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,649,972)	\$ -	\$ 99,833
14	Allowance For Working Capital	\$ 434,422	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (300,118)	\$ 134,304
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	(1)	-	-	-	-	-	-	-	-	(1)
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 12,041,310	\$ 675,543	\$ 32,395	\$ 175,741	\$ (388,362)	\$ (27,517)	\$ -	\$ (1,649,972)	\$ (300,118)	\$ 10,561,020

References:

Surrebutal Adjustments:
Column (A): Company Schedule B-2
Column (B): Surrebutal Adjustment No. 1 - Add Gateway Plant (RLM Testimony)
Column (C): Surrebutal Adjustment No. 2 - Big Bend Reservoir Actual Cost (RLM Testimony)

Direct Adjustments:
Column (D): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (E): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (F): Adjustment No. 3 - Conforming Adjustment to GB 18.7
Column (G): Adjustment No. 4 - Intentionally Left Blank
Column (H): Adjustment No. 5 - To Correct Deferred Debit Balance per Company's Response to Staff DR GWB 17.1
Column (I): Adjustment No. 6 - Allowance For Working Capital
Column (J): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

Arizona-Americian Water Company
Docket Nos. SW & W-01303A-08-0227
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Mohave Water District
Schedule SURR RLM-5
Page 1 of 2

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 8,897	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	8,897	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 57,963	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	57,963	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 367,562	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	67,444	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (300,118)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (300,118)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 899,973	\$ (12,768)	\$ 887,205	12.0000	\$ 10,646,460
2	Purchased Water	44,384	-	44,384	86.8700	3,855,638
3	Fuel & Power	501,877	-	501,877	32.4200	16,270,852
4	Chemicals	7,846	-	7,846	28.4700	223,376
5	Waste Disposal	(295)	295	-	30.0000	-
6	Management Fees	940,899	(11,325)	929,574	(3.8800)	(3,606,747)
7	Group Insurance	209,312	-	209,312	(4.6445)	(972,150)
8	Pensions	127,879	-	127,879	45.0000	5,754,555
9	Insurance Other Than Group	51,991	-	51,991	45.0000	2,339,595
10	Customer Accounting	132,002	-	132,002	7.4600	984,735
11	Rents	15,559	-	15,559	(10.6818)	(166,198)
12	Depreciation & Amorization	883,235	(883,235)	-	-	-
13	Other Operating Expenses	1,160,857	(470,254)	690,603	30.0000	20,718,078
	Taxes:					
14	Taxes Other Than Income	75,809	-	75,809	15.6511	1,186,494
15	Property Taxes	221,795	8,882	230,677	212.5000	49,018,871
16	Income Tax	422,238	(158,003)	264,235	42.0402	11,108,505
17	Interest Expense	-	318,534	318,534	106.5200	33,930,230
18	Total Appropriate Operating Expenses	<u>\$ 5,695,361</u>	<u>\$ (1,207,874)</u>	<u>\$ 4,487,487</u>		<u>\$ 151,292,295</u>
19	Expense Lag	Line 18, Col. (E) / (C)	33.71			
20	Revenue Lag	RUCO Workpapers	39.20			
21	Net Lag	Line 20 - Line 19	5.49			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 4,487,487</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>67,444</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	367,562			
25	Difference	Line 23 - Line 24	<u>\$ (300,118)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u>\$ (300,118)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
Revenues:						
1	Metered Water Revenues	\$ 4,932,608	\$ -	\$ 4,932,608	\$ 615,728	\$ 5,548,336
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	181,023	-	181,023	-	181,023
4	TOTAL OPERATING REVENUE	<u>\$ 5,113,631</u>	<u>\$ -</u>	<u>\$ 5,113,631</u>	<u>\$ 615,728</u>	<u>\$ 5,729,359</u>
Operating Expenses:						
5	Labor	\$ 899,973	\$ (12,768)	\$ 887,205	\$ -	\$ 887,205
6	Purchased Water	44,384	-	44,384	-	44,384
7	Fuel & Power	501,877	-	501,877	-	501,877
8	Chemicals	7,846	-	7,846	-	7,846
9	Waste Disposal	(295)	295	-	-	-
10	Management Fees	940,899	(11,325)	929,574	-	929,574
11	Group Insurance	209,312	-	209,312	-	209,312
12	Pensions	127,879	-	127,879	-	127,879
13	Regulatory Expense	119,303	(96,100)	23,203	-	23,203
14	Insurance Other Than Group	51,991	-	51,991	-	51,991
15	Customer Accounting	132,002	-	132,002	-	132,002
16	Rents	15,559	-	15,559	-	15,559
17	General Office Expense	103,944	-	103,944	-	103,944
18	Miscellaneous	354,017	7,220	361,237	-	361,237
19	Maintenance Expense	583,888	(381,669)	202,219	-	202,219
20	Depreciation & Amortization	883,235	(61,694)	821,541	-	821,541
21	General Taxes - Property Taxes	221,795	8,882	230,677	-	230,677
22	General Taxes - Other	75,809	-	75,809	-	75,809
23	Income Tax	(196,927)	223,498	26,571	237,664	264,235
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 5,076,491</u>	<u>\$ (323,662)</u>	<u>\$ 4,752,829</u>	<u>\$ 237,664</u>	<u>\$ 4,990,493</u>
26	OPERATING INCOME (LOSS)	<u>\$ 37,140</u>	<u>\$ 323,662</u>	<u>\$ 360,802</u>	<u>\$ 378,064</u>	<u>\$ 738,866</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUTL ADJMT NO. 3 TANK MAINTENANCE	(C) SURREBUTL ADJMT NO. 5 WATER TESTING	(D) ADJMT NO. 1 PROPERTY TAX	(E) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(F) ADJMT NO. 3 RATE CASE EXPENSE	(G) ADJMT NO. 4 WASTE DISPOSAL	(H) ADJMT NO. 5 AIP EXPENSE	(I) ADJMT NO. 6 LABOR EXPENSE	(J) ADJMT NO. 7 MISC. EXPENSES	(K) ADJMT NO. 8 INCOME TAX	(L) RUCO AS ADJTD
1	Revenues:												
2	Metered Water Revenues	\$ 4,932,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,932,608
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	181,023	-	-	-	-	-	-	-	-	-	-	181,023
5	TOTAL OPERATING REV.	\$ 5,113,631	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,113,631
6	Operating Expenses:												
7	Labor	\$ 899,973	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,768)	\$ -	\$ -	\$ 897,205
8	Purchased Water	44,384	-	-	-	-	-	-	-	-	-	-	44,384
9	Fuel & Power	501,877	-	-	-	-	-	-	-	-	-	-	501,877
10	Chemicals	7,846	-	-	-	-	-	-	-	-	-	-	7,846
11	Waste Disposal	(295)	-	-	-	-	-	295	-	-	-	-	-
12	Management Fees	940,859	-	-	-	-	-	-	(11,325)	-	-	-	929,534
13	Group Insurance	209,312	-	-	-	-	-	-	-	-	-	-	209,312
14	Pensions	127,879	-	-	-	-	-	-	-	-	-	-	127,879
15	Regulatory Expense	119,303	-	-	-	-	-	-	-	-	-	-	119,303
16	Insurance Other Than Group	51,991	-	-	-	-	(96,100)	-	-	-	-	-	51,991
17	Customer Accounting	132,002	-	-	-	-	-	-	-	-	-	-	132,002
18	Rentals	15,559	-	-	-	-	-	-	-	-	-	-	15,559
19	General Office Expense	103,944	-	-	-	-	-	-	-	-	-	-	103,944
20	Miscellaneous	354,017	-	8,627	-	-	-	-	-	-	(1,407)	-	361,237
21	Maintenance Expense	583,888	(381,669)	-	-	-	-	-	-	-	-	-	202,219
22	Depreciation & Amortization	883,235	-	-	-	(61,694)	-	-	-	-	-	-	821,541
23	General Taxes - Property Taxes	221,795	-	-	8,882	-	-	-	-	-	-	-	230,677
24	General Taxes - Other	75,809	-	-	-	-	-	-	-	-	-	-	75,809
25	Income Tax	(196,927)	-	-	-	-	-	-	-	-	-	223,498	26,571
26	TOTAL OPERATING EXP.	\$ 5,076,491	\$ (381,669)	\$ 9,627	\$ 8,882	\$ (61,694)	\$ (96,100)	\$ 295	\$ (11,325)	\$ (12,768)	\$ (1,407)	\$ 223,498	\$ 4,752,829
27	ROUNDING	-	-	-	-	-	-	-	-	-	-	-	-
28	TOTAL OPERATING INC. (LOSS)	\$ 37,140	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,140

SURREBUTL ADJUSTMENTS:
1 Tank Maintenance Expense
2 Water Testing Expense

DIRECT ADJUSTMENTS:
1 Property Tax Computation
2 Depreciation And Amortization Expense
3 Rate Case Expense
4 Waste Disposal Expense
5 Annual Incentive Pay Program Expense
6 To Correct Test Year Labor Expense
7 Miscellaneous Expense
8 Income Tax

REFERENCE:
RLM Testimony
RLM Testimony

Testimony, RLM And Schedule RLM-8
Testimony, RLM And Schedule RLM-9
RLM Testimony
Per Company Response to DR GTM 8.7
RLM Testimony
Agua Fria, Mohave & Sun City West Adjustment To Labor Expense
RLM Testimony
Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 5,113,631	
2	Adjusted Test Year Revenue	Schedule RLM-7	5,113,631	
3	RUCO Proposed Revenue	Schedule RLM-6	5,729,359	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 15,956,621	
5	Average Annual Operating Revenues	Line 4 / 3	5,318,874	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 10,637,748
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 498,471	
8	10% Of CWIP	Line 7 X 10%		\$ 49,847
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	RUCO Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	RUCO Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 10,687,595
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 2,458,147	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	9.38%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	9.38%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 230,677
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		221,795
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 8,882
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 8,882

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 34,004	0.00%	\$ -
2	302000	Franchises	37,061	0.00%	-
3	303200	Land & Land Rights SS	290,791	0.00%	-
4	303300	Land & Land Rights P	2,351	0.00%	-
5	303500	Land & Land Rights TD	9,609	0.00%	-
6	303600	Land & Land Rights AG	31,052	0.00%	-
7	304100	Struct & Imp SS	452,783	2.83%	12,814
8	304200	Struct & Imp P	1,687	2.39%	40
9	304300	Struct & Imp WT	47,846	2.50%	1,196
10	304400	Struct & Imp TD	6,311	1.81%	114
11	304600	Struct & Imp Offices	477,525	2.03%	9,694
12	304700	Struct & Imp - Stores	29,223	2.03%	593
13	305000	Collect & Impounding	663,944	2.54%	16,864
14	306000	Lakes, Rivers, Other Intakes	-	0.00%	-
15	307000	Wells & Springs	1,068,077	2.70%	28,838
16	310100	Power Generation Equip Other	188,229	0.00%	-
17	311200	Pump Equip Electric	2,325,058	5.12%	119,043
18	311300	Pump Equip Diesel	-	0.00%	-
19	311500	Pump Equip Other	1,009	5.12%	52
20	320100	WT Equip Non-Media	50,870	12.00%	6,104
21	330000	Dist Reservoirs & Standpipe	2,237,501	1.81%	40,499
22	331001	TD Mains Not Classified by Size	131,082	2.61%	3,421
23	331100	TD Mains 4in & Less	11,718,711	2.61%	305,858
24	331200	TD Mains 6in to 8in	2,476,114	2.61%	64,627
25	331300	TD Mains 10in to 16in	221,359	2.61%	5,777
26	333000	Services	3,447,832	5.41%	186,528
27	334100	Meters	1,770,642	6.53%	115,623
28	334200	Meter Installations	236,697	6.53%	15,456
29	335000	Hydrants	36,474	0.00%	-
30	339100	Othber P/E Intangible	-	0.00%	-
31	3392500	Other P/E SS	82,582	0.00%	-
32	340100	Office Furniture & Equip	253,564	4.10%	10,396
33	340200	Comp & Periph Equip	113,990	4.10%	4,674
34	340300	Computer Software	191,175	4.10%	7,838
35	341100	Trans Equip Lt Duty Trks	343,147	25.00%	85,787
36	341200	Trans Equip Hvy Duty Trks	-	25.00%	-
37	342000	Stores Equipment	2,400	3.93%	94
38	343000	Tools,Shop,Garage Equip	138,100	7.55%	10,427
39	344000	Laboratory Equipment	7,623	3.06%	233
40	345000	Power Operated Equipment	172,529	9.23%	15,924
41	346100	Communication Equipment	199,709	4.10%	8,188
42	346200	Communication Equipment Telephone	49,678	4.10%	2,037
43	346300	Miscellaneous Equipment	5,615	6.19%	348
44	TOTAL	0	<u>\$ 29,553,953</u>		<u>\$ 1,079,088</u>
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			12,014
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			<u>\$ 1,091,102</u>
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITZATION OF REGULATORY ASSETS			9,384
48		AMORTIZATION OF CONTRIBUTIONS			7,561
49		AMORTIZATION OF REGULATORY CIAC			(286,506)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				<u>\$ 821,541</u>
52	Company As Filed				883,235
53	Difference				<u>\$ (61,694)</u>
54	RUCO Adjustment (See RLM-7, Column (C))				<u>\$ (61,694)</u>

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 387,373
	LESS:		
2	Arizona State Tax	Line 11	4,797
3	Interest Expense	Note (A) Line 20	318,534
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 64,042
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 21,774
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 387,373
	LESS:		
8	Interest Expense	Note (A) Line 20	318,534
9	State Taxable Income	Line 7 - Line 8	\$ 68,839
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 4,797
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 21,774
13	State Income Tax Expense	Line 11	4,797
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 26,571
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(196,927)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 223,498
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ 223,498

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 10,561,020
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 318,534

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	G1M1A - 5/8" & 3/4"	14,732	(3)	14,729	\$ 10.13	\$ 1,790,852	\$ 1,790,852
	Commodity Usage						
2	First Tier - First 4,000 Gals.	527,981	(148)	527,833	\$ 1.2420	\$ 655,586	
3	Second Tier - Next 6,000 Gals.	483,259	(151)	483,108	\$ 1.3721	\$ 662,855	
4	Third Tier - Over 10,000 Gals.	415,917	-	415,917	\$ 1.4725	\$ 612,455	
							\$ 1,930,896
5	G1M1B - 1"	55	0	55	\$ 24.60	\$ 16,384	\$ 16,384
	Commodity Usage						
6	First Tier - First 25,000 Gals.	9,632	96	9,728	\$ 1.3721	\$ 13,348	
7	Second Tier - Over 25,000 Gals.	6,291	-	6,291	\$ 1.4725	\$ 9,264	
							\$ 22,611
8	G1M1D - 2"	30	-	30	\$ 78.74	\$ 28,369	\$ 28,369
	Commodity Usage						
9	First Tier - First 80,000 Gals.	14,419	-	14,419	\$ 1.3721	\$ 19,784	
10	Second Tier - Over 80,000 Gals.	29,167	-	29,167	\$ 1.4725	\$ 42,950	
							\$ 62,733
11	G1M2A - Apt 5/8" X 3/4"	72	-	72	\$ 10.13	\$ 8,809	\$ 8,809
	Commodity Usage						
12	First Tier - First 10,000 Gals.	7,980	-	7,980	\$ 1.3721	\$ 10,949	
13	Second Tier - Over 10,000 Gals.	7,248	-	7,248	\$ 1.4725	\$ 10,673	
							\$ 21,622
14	G1M2B - Apt 1"	55	-	55	\$ 24.60	\$ 16,109	\$ 16,109
	Commodity Usage						
15	First Tier - First 25,000 Gals.	10,407	-	10,407	\$ 1.3721	\$ 14,279	
16	Second Tier - Over 25,000 Gals.	6,078	-	6,078	\$ 1.4725	\$ 8,950	
							\$ 23,229
17	G1M2C - Apt 1-1/2"	4	-	4	\$ 49.22	\$ 2,320	\$ 2,320
	Commodity Usage						
18	First Tier - First 50,000 Gals.	2,090	-	2,090	\$ 1.3721	\$ 2,868	
19	Second Tier - Over 50,000 Gals.	500	-	500	\$ 1.4725	\$ 736	
							\$ 3,604
20	G1M2D - Apt 2"	145	-	145	\$ 78.74	\$ 137,101	\$ 137,101
	Commodity Usage						
21	First Tier - First 80,000 Gals.	57,666	-	57,666	\$ 1.3721	\$ 79,121	
22	Second Tier - Over 80,000 Gals.	68,243	-	68,243	\$ 1.4725	\$ 100,491	
							\$ 179,612
23	G1M2F - Apt 4"	4	-	4	\$ 248.96	\$ 11,236	\$ 11,236
	Commodity Usage						
24	First Tier - First 250,000 Gals.	5,465	-	5,465	\$ 1.3721	\$ 7,498	
25	Second Tier - Over 250,000 Gals.	3,049	-	3,049	\$ 1.4725	\$ 4,490	
							\$ 11,988
26	G1M2G - Apt 6"	3	-	3	\$ 492.14	\$ 17,717	\$ 17,717
	Commodity Usage						
27	First Tier - First 500,000 Gals.	9,165	-	9,165	\$ 1.3721	\$ 12,575	
28	Second Tier - Over 500,000 Gals.	9,449	-	9,449	\$ 1.4725	\$ 13,914	
							\$ 26,489
29	G1M3A - Apt 5/8" x 3/4" - Rio Utility	352	-	352	\$ 10.13	\$ 42,793	\$ 42,793
	Commodity Usage						
30	First Tier - First 4,000 Gals.	13,793	-	13,793	\$ 1.2420	\$ 17,131	
31	Second Tier - Next 6,000 Gals.	14,700	-	14,700	\$ 1.3721	\$ 20,169	
32	Third Tier - Over 10,000 Gals.	14,697	-	14,697	\$ 1.4725	\$ 21,642	
							\$ 58,943
33	G1M3B - Apt 1" - Rio Utility	4	-	4	\$ 24.60	\$ 1,181	\$ 1,181
	Commodity Usage						
34	First Tier - First 25,000 Gals.	468	-	468	\$ 1.3721	\$ 642	
35	Second Tier - Over 25,000 Gals.	53	-	53	\$ 1.4725	\$ 78	
							\$ 720
36	Total Residential Customers	15,456	(3)	15,453			
37	Total Residential Usage	1,703,924	(202)	1,703,722			
38	TOTAL RESIDENTIAL CUSTOMERS REVENUE						\$ 4,415,318

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
COMMERCIAL CUSTOMERS							
39	G2M1A - 5/8" & 3/4" Commodity Usage	402	(1)	402	\$ 10.13	\$ 48,842	\$ 48,842
40	First Tier - First 13,000 Gals.	25,169	(90)	25,079	\$ 1.3721	\$ 34,410	
41	Second Tier - Over 13,000 Gals.	31,262	(15)	31,247	\$ 1.4725	\$ 46,012	\$ 80,422
42	G2M1B - 1" Commodity Usage	171	0	171	\$ 24.60	\$ 50,510	\$ 50,510
43	First Tier - First 30,000 Gals.	28,236	125	28,361	\$ 1.3721	\$ 38,913	
44	Second Tier - Over 30,000 Gals.	25,918	7	25,925	\$ 1.4725	\$ 38,176	
45	G2M1C - 1-1/2" Commodity Usage	9	(0)	9	\$ 49.22	\$ 5,154	\$ 77,089
46	First Tier - First 60,000 Gals.	3,433	(150)	3,283	\$ 1.3721	\$ 4,504	\$ 5,154
47	Second Tier - Over 60,000 Gals.	9,690	(215)	9,475	\$ 1.4725	\$ 13,952	
48	G2M1D - 2" Commodity Usage	206	0	207	\$ 78.74	\$ 195,172	\$ 18,456
49	First Tier - First 60,000 Gals.	97,948	80	98,028	\$ 1.3721	\$ 134,501	\$ 195,172
50	Second Tier - Over 60,000 Gals.	157,392	23	157,415	\$ 1.4725	\$ 231,800	
51	G2M1E - 3" Commodity Usage	30	-	30	\$ 157.48	\$ 55,995	\$ 366,301
52	First Tier - First 60,000 Gals.	16,576	-	16,576	\$ 1.3721	\$ 22,743	\$ 55,995
53	Second Tier - Over 60,000 Gals.	21,120	-	21,120	\$ 1.4725	\$ 31,100	
54	G2M1F - 4" Commodity Usage	1	-	1	\$ 248.96	\$ 3,685	\$ 53,843
55	First Tier - First 60,000 Gals.	2,117	-	2,117	\$ 1.3721	\$ 2,905	\$ 3,685
56	Second Tier - Over 60,000 Gals.	255	-	255	\$ 1.4725	\$ 375	
57	G2M1G - 6" Commodity Usage	2	-	2	\$ 492.14	\$ 9,577	\$ 3,280
58	First Tier - First 60,000 Gals.	1,449	-	1,449	\$ 1.3721	\$ 1,988	\$ 9,577
59	Second Tier - Over 60,000 Gals.	185	-	185	\$ 1.4725	\$ 272	
60	G2M1V - 5/8" X 3/4" - BHC Memorial Commodity Usage	2	-	2	\$ -	\$ -	\$ 2,261
61	First Tier - First 60,000 Gals.	207	-	207	\$ 1.3721	\$ 284	\$ -
62	Second Tier - Over 60,000 Gals.	1,236	-	1,236	\$ 1.4725	\$ 1,820	
63	H2M1D - 2" - Havasu Commercial Commodity Usage	1	-	1	\$ 46.18	\$ 330	\$ 2,104
64	First Tier - First 60,000 Gals.	415	-	415	\$ 1.6414	\$ 682	\$ 330
65	Second Tier - Over 60,000 Gals.	2,444	-	2,444	\$ 1.8356	\$ 4,486	
66	H2M1F - 4" - Havasu Commercial Commodity Usage	0	-	0	\$ 79.48	\$ 397	\$ 5,168
67	First Tier - First 90,000 Gals.	550	-	550	\$ 1.6414	\$ 903	\$ 397
68	Second Tier - Over 90,000 Gals.	882	-	882	\$ 1.8356	\$ 1,619	
69	Total Commercial Customers	824	(1)	823			\$ 2,522
70	Total Commercial Usage	1,703,924	(202)	1,703,722			
71	TOTAL COMMERCIAL CUSTOMERS REVENUE						\$ 981,108

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJTM'TS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
OPA							
72	G4M1 - Bullhead OPA - 5/8" X 3/4"	25	-	25	\$ 10.13	\$ 3,060	
73	All Commodity Usage	2,257	-	2,257	\$ 1.4303	\$ 3,228	
							\$ 6,288
74	G4M1 - Bullhead OPA - 1"	8	0	8	\$ 24.60	\$ 2,350	
75	All Commodity Usage	3,543	6	3,549	\$ 1.4303	\$ 5,076	
							\$ 7,427
76	G4M1 - Bullhead OPA - 1-1/2"	4	-	4	\$ 49.22	\$ 2,362	
77	All Commodity Usage	2,104	-	2,104	\$ 1.4303	\$ 3,009	
							\$ 5,372
78	G4M1 - Bullhead OPA - 2"	42	0	42	\$ 78.74	\$ 39,831	
79	All Commodity Usage	36,512	798	37,310	\$ 1.4303	\$ 53,365	
							\$ 93,196
80	G4M1 - Bullhead OPA - 3"	2	-	2	\$ 157.48	\$ 3,779	
81	All Commodity Usage	17,545	-	17,545	\$ 1.4303	\$ 25,095	
							\$ 28,875
82	G4M1 - Bullhead OPA - 4"	1	-	1	\$ 248.96	\$ 2,988	
83	All Commodity Usage	9,597	-	9,597	\$ 1.4303	\$ 13,727	
							\$ 16,714
84	G4M1 - Bullhead OPA - 6"	1	-	1	\$ 492.14	\$ 5,906	
85	All Commodity Usage	19,160	-	19,160	\$ 1.4303	\$ 27,405	
							\$ 33,311
86	Total OPA Customers	83	1	83			
87	Total OPA Usage	86,204	804	87,008			
88	TOTAL OPA CUSTOMERS REVENUE						\$ 191,182
PRIVATE FIRE PROTECTION CUSTOMERS (No Commodity Usage Charge)							
89	G6M02 - 2"	21	-	21	\$ 8.18	\$ 2,062	
90	G6M04 - 4"	66	0	66	\$ 16.34	\$ 12,938	
91	G6M06 - 6"	20	-	20	\$ 24.52	\$ 5,885	
92	G6M08 - 8"	5	-	5	\$ 32.70	\$ 1,962	
93	G6M10 - 10"	1	-	1	\$ 40.86	\$ 490	
94	G8M4 - Hydrant	161	-	161	\$ 20.82	\$ 40,227	
95	Total Fire Protection Customers	274	0	274			
96	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS						\$ 63,564
97	TOTAL RUCO TEST YEAR REVENUE PER BILL COUNT						\$ 5,651,173
98	Unreconciled Difference vs. Billed Revenues						(104,938)
99	REVENUE PER BILL COUNT						5,546,236
100	Other Revenue						181,023
101	ACRM Revenue						-
102	TOTAL REVENUE						\$ 5,727,259
103	PROPOSED REVENUE PER FILING						\$ 5,729,359
104	Difference						\$ (2,101)
105	Percentage Difference						-0.04%

**RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
TYPICAL RESIDENTIAL BILL ANALYSIS**

LINE NO.	DESCRIPTION	(A) PRESENT	(B) PRESENT	(C) COMPANY PROPOSED	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 3,891,713	77.57%	\$ 5,229,273	78.13%	\$ 4,415,318	78.13%
2	OTHER	1,125,047	22.43%	1,463,682	21.87%	1,235,855	21.87%
3	TOTAL	<u>\$ 5,016,760</u>	<u>100.00%</u>	<u>\$ 5,651,173</u>	<u>100.00%</u>	<u>\$ 5,651,173</u>	<u>100.00%</u>
ALLOCATION RATIOS							
4	FIX REVENUE	\$ 2,186,482	43.58%	\$ 3,039,479	45.41%	\$ 2,566,373	45.41%
5	VARIABLE REVENUE	2,830,278	56.42%	3,653,476	54.59%	3,084,800	54.59%
6	TOTAL	<u>\$ 5,016,760</u>	<u>100.00%</u>	<u>\$ 5,651,173</u>	<u>100.00%</u>	<u>\$ 5,651,173</u>	<u>100.00%</u>
RES. G-1 (5/8" X 3/4") RATE DESIGN							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$	8.75	\$	12.00	\$	10.13
COMMODITY CHARGE							
		PRESENT	PROPOSED				
8	First Tier - First 4,000 Gals.	\$	0.8500	\$	1.4710	\$	1.2420
9	Second Tier - Next 6,000 Gals.	\$	1.3000	\$	1.6250	\$	1.3721
10	Third Tier - Over 10,000 Gals.	\$	1.5000	\$	1.7440	\$	1.4725
RESIDENTIAL BILL COMPARISONS							
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL		% OF AVERAGE MONTH USAGE OF 8073 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	2,018	\$ 10.47	\$ 12.64	\$ 2.17	20.77%
12		50.00%	4,037	\$ 12.20	\$ 15.15	\$ 2.95	24.21%
13		100.00%	8,073	\$ 17.44	\$ 20.69	\$ 3.24	18.59%
14		150.00%	12,110	\$ 23.12	\$ 26.44	\$ 3.32	14.38%
15		200.00%	16,146	\$ 29.17	\$ 32.38	\$ 3.21	11.02%

MOHAVE WASTEWATER DISTRICT

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SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 4,740,149	\$ 2,631,542
2	Adjusted Operating Income (Loss)	\$ 15,619	\$ 161,965
3	Current Rate Of Return (L2 / L1)	0.33%	6.15%
4	Required Operating Income (L5 X L1)	\$ 398,173	\$ 184,107
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 382,554	\$ 22,142
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6786	1.4803
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 642,148	\$ 32,777
9	Adjusted Test Year Revenue	\$ 796,161	\$ 796,161
10	Proposed Annual Revenue (L8 + L9)	\$ 1,438,309	\$ 828,938
11	Required Percentage Increase In Revenue (L8 / L9)	80.66%	4.12%
12	Rate Of Return On Common Equity	11.75%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3245			
3	Subtotal (L1 - L2)	0.6755			
4	Revenue Conversion Factor (L1 / L3)	1.4803			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	27.3874%			
9	Effective Federal Income Tax Rate (L7 X L8)	25.4790%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	32.4470%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 184,107			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	161,965			
13	Required Increase In Operating Income (L11 - L12)		\$ 22,142		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 50,307			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	39,672			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 10,635		
17	Total Required Increase In Revenue (L13 + L16)		\$ 32,777		
				RUCO	
CALCULATION OF INCOME TAX:				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 828,938	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			594,524	
20	Synchronized Interest (Col. (C), L37)			79,371	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 155,043	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 10,803
24	Fed. Taxable Income (L21 - L23)			\$ 144,240	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			17,253	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 39,503
31	Combined Federal And State Income Tax (L23 + L30)				\$ 50,307
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 39,672
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 10,635
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				27.39%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 2,631,542	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 79,371	

RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'ED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 7,154,300	\$ (2,043,042)	\$ 5,111,259
2	Accumulated Depreciation	\$ (367,213)	55,176	\$ (312,037)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 6,787,087</u>	<u>\$ (1,987,866)</u>	<u>\$ 4,799,221</u>
4	Advances In Aid Of Const.	\$ (1,414,706) 0	\$ -	\$ (1,414,706)
5	Contribution In Aid Of Const.	\$ (668,945)	\$ (65,395)	\$ (734,340)
6	Accumulated Amortization Of CIAC	\$ -	-	\$ -
7	NET CIAC (L6 + L7)	<u>\$ (668,945)</u>	<u>\$ (65,395)</u>	<u>\$ (734,340)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (131,237)	\$ -	\$ (131,237)
10	Customer Meter Deposits	\$ -	\$ -	\$ -
11	Deferred Income Taxes And Credits	\$ 105,590	\$ -	\$ 105,590
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ -	\$ 7,701	\$ 7,701
14	Allowance For Working Capital	\$ 62,360	\$ (63,047)	\$ (687)
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 4,740,149</u>	<u>\$ (2,108,607)</u>	<u>\$ 2,631,542</u>

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	(A) COMPANY AS FILED	(B) SURREBUT'L ADJMT NO. 1 GATEWAY PLANT	(C) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(D) ADJMT NO. 2 CIAC FOR CWIP	(E) ADJMT NO. 4 WISHING WELL	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 7,154,300	\$ 94,978	\$ -	\$ (2,138,020)	\$ -	\$ -	\$ 5,111,259
2	Accumulated Depreciation	(367,213)	(7,621)	-	-	-	-	(312,037)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 6,787,087	\$ 87,357	\$ -	\$ (2,138,020)	\$ -	\$ -	\$ 4,799,221
4	Advances In Aid Of Const.	\$ (1,414,706)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,414,706)
5	Contribution In Aid Of Const. - Net	\$ (668,945)	\$ -	\$ (65,395)	\$ -	\$ -	\$ -	\$ (734,340)
6	Accumulated Amortization Of CIAC	-	-	-	-	-	-	-
7	NET CIAC (L5 + L6)	\$ (668,945)	\$ -	\$ (65,395)	\$ -	\$ -	\$ -	\$ (734,340)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (131,237)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (131,237)
10	Customer Meter Deposits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	Deferred Income Taxes And Credits	\$ 105,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,590
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ -	\$ -	\$ -	\$ -	\$ 7,701	\$ -	\$ 7,701
14	Allowance For Working Capital	\$ 62,360	\$ -	\$ -	\$ -	\$ -	\$ (63,047)	\$ (687)
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 4,740,149	\$ 87,357	\$ (65,395)	\$ (2,138,020)	\$ 7,701	\$ (63,047)	\$ 2,631,542

References:

- Column (A): Company Schedule B-2
Column (B): Surrebital Adjustment No. 1 - Add Gateway Plant (RLM Testimony)
Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, TJC)
Column (D): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (E): Adjustment No. 3 - Intentionally Left Blank
Column (F): Adjustment No. 4 - To Remove 50% of Post Test Year Treatment Plant Expansion Plus Company Rebuttal Adjustment as Not-Used & Useful
Column (G): Adjustment No. 5 - Adjust Deferred Debits Per Company Responses To Staff Data Request GWB 17.1
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 341	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	341	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 3,661	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	3,661	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 58,358	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(4,689)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (63,047)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (63,047)</u>	Sum Lines 3, 6 & 9

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY**

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 108,996	\$ (1,678)	\$ 107,318	12.0000	\$ 1,287,816
2	Purchased Water	-	-	-	-	-
3	Fuel & Power	73,650	-	73,650	32.4200	2,387,733
4	Chemicals	9,214	-	9,214	28.4700	262,323
5	Waste Disposal	126,228	(139,961)	(13,733)	30.0000	(411,990)
6	Management Fees	123,665	(1,489)	122,176	(3.8800)	(474,045)
7	Group Insurance	24,046	-	24,046	(4.6445)	(111,682)
8	Pensions	18,447	-	18,447	45.0000	830,115
9	Insurance Other Than Group	7,294	-	7,294	45.0000	328,230
10	Customer Accounting	16,497	-	16,497	7.4600	123,068
11	Rents	1,613	-	1,613	(10.6818)	(17,230)
12	Depreciation & Amorization	248,398	(248,398)	-	-	-
13	Other Operating Expenses	51,688	(12,019)	39,669	30.0000	1,190,072
	Taxes:					
14	Taxes Other Than Income	9,778	-	9,778	15.6511	153,036
15	Property Taxes	37,922	4,310	42,232	212.5000	8,974,198
16	Income Tax	9,778	40,529	50,307	42.0402	2,114,911
17	Interest Expense	-	79,371	79,371	106.5200	8,454,564
18	Total Appropriate Operating Expenses	<u>\$ 867,214</u>	<u>\$ (279,336)</u>	<u>\$ 587,879</u>		<u>\$ 25,091,120</u>
19	Expense Lag	Line 18, Col. (E) / (C)	42.68			
20	Revenue Lag	RUCO Workpapers	39.77			
21	Net Lag	Line 20 - Line 19	(2.91)			
22	RUCO Adjusted Expenses	Col. (C), Line 18	<u>\$ 587,879</u>			
23	Cash Working Capital	Line 21 X Line 22 / 365 Days	<u>(4,689)</u>			
24	Company As Filed	Co. Schedule B-6, Page 1	58,358			
25	Difference	Line 23 - Line 24	<u>\$ (63,047)</u>			
26	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 25	<u><u>\$ (63,047)</u></u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'M'TS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 791,279	\$ -	\$ 791,279	\$ 32,777	\$ 824,056
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Revenues	4,882	-	4,882	-	4,882
4	TOTAL OPERATING REVENUE	<u>\$ 796,161</u>	<u>\$ -</u>	<u>\$ 796,161</u>	<u>\$ 32,777</u>	<u>\$ 828,938</u>
	Operating Expenses:					
5	Labor	\$ 108,996	\$ (1,678)	\$ 107,318	\$ -	\$ 107,318
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	73,650	-	73,650	-	73,650
8	Chemicals	9,214	-	9,214	-	9,214
9	Waste Disposal	126,228	(139,961)	(13,733)	-	(13,733)
10	Management Fees	123,665	(1,489)	122,176	-	122,176
11	Group Insurance	24,046	-	24,046	-	24,046
12	Pensions	18,447	-	18,447	-	18,447
13	Regulatory Expense	22,140	(19,159)	2,981	-	2,981
14	Insurance Other Than Group	7,294	-	7,294	-	7,294
15	Customer Accounting	16,497	-	16,497	-	16,497
16	Rents	1,613	-	1,613	-	1,613
17	General Office Expense	7,874	-	7,874	-	7,874
18	Miscellaneous	16,726	10,121	26,847	-	26,847
19	Maintenance Expense	4,948	-	4,948	-	4,948
20	Depreciation & Amortization	248,398	(115,056)	133,342	-	133,342
21	General Taxes - Property Taxes	37,922	4,310	42,232	-	42,232
22	General Taxes - Other	9,778	-	9,778	-	9,778
23	Income Tax	(76,894)	116,566	39,672	10,635	50,307
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 780,542</u>	<u>\$ (146,346)</u>	<u>\$ 634,196</u>	<u>\$ 10,635</u>	<u>\$ 644,831</u>
26	OPERATING INCOME (LOSS)	<u>\$ 15,619</u>	<u>\$ 146,346</u>	<u>\$ 161,965</u>	<u>\$ 22,142</u>	<u>\$ 184,107</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUT'L ADJMT NO. 2 LABOR EXPENSE	(C) SURREBUT'L ADJMT NO. 5 WATER TEST EXPENSE	(D) ADJMT NO. 1 PROPERTY TAX	(E) ADJMT NO. 2 DEPRECIATN & AMORTIZN	(F) ADJMT NO. 3 RATE CASE EXPENSE	(G) ADJMT NO. 4 WASTE DISPOSAL	(H) ADJMT NO. 5 AIP EXPENSE	(I) ADJMT NO. 6 MISC EXPENSES	(J) ADJMT NO. 7 INCOME TAX	(K) RUCO AS ADJTD
1	Revenues:											
2	1 Metered Water Revenues	\$ 791,279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 791,279
3	2 Unmetered Water Revenues	4,882	-	-	-	-	-	-	-	-	-	4,882
4	3 Other Revenues	\$ 796,161	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 796,161
5	4 TOTAL OPERATING REV.											
6	Operating Expenses:											
7	1 Labor	\$ 108,996	\$ (1,578)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 107,318
8	2 Purchased Water	73,650	-	-	-	-	-	-	-	-	-	73,650
9	3 Fuel & Power	9,214	-	-	-	-	-	-	-	-	-	9,214
10	4 Chemicals	126,228	-	-	-	-	-	(139,961)	-	-	-	(13,733)
11	5 Waste Disposal	123,665	-	-	-	-	-	-	(1,489)	-	-	122,176
12	6 Management Fees	24,046	-	-	-	-	-	-	-	-	-	24,046
13	7 Group Insurance	18,447	-	-	-	-	-	-	-	-	-	18,447
14	8 Pensions	22,140	-	-	-	-	(19,159)	-	-	-	-	2,981
15	9 Regulatory Expense	7,294	-	-	-	-	-	-	-	-	-	7,294
16	10 Insurance Other Than Group	16,497	-	-	-	-	-	-	-	-	-	16,497
17	11 Customer Accounting	1,613	-	-	-	-	-	-	-	-	-	1,613
18	12 Rents	7,874	-	-	-	-	-	-	-	-	-	7,874
19	13 General Office Expense	16,726	-	-	-	-	-	-	-	(167)	-	26,847
20	14 Miscellaneous	4,948	-	-	-	-	-	-	-	-	-	4,948
21	15 Maintenance Expense	248,398	-	-	-	-	-	-	-	-	-	133,342
22	16 Depreciation & Amortization	37,922	-	-	-	(115,056)	-	-	-	-	-	42,232
23	17 General Taxes - Property Taxes	9,778	-	-	-	-	-	-	-	-	-	9,778
24	18 General Taxes - Other	(76,894)	-	-	-	-	-	-	-	-	-	39,672
25	19 Income Tax										116,566	
26	20 Rounding											
27	21 TOTAL OPERATING EXP.	\$ 780,542	\$ (1,578)	\$ 10,288	\$ 4,310	\$ (115,056)	\$ (19,159)	\$ (139,961)	\$ (1,489)	\$ (167)	\$ 116,566	\$ 634,196
28	22 OPERATING INC. (LOSS)	\$ 15,619										\$ 161,985

SURREBUTAL ADJUSTMENTS:

- 1 Labor Expense
- 2 Water Testing Expense

DIRECT ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Rate Case Expense
- 4 Waste Disposal Expense
- 5 Annual Incentive Pay Program Expense
- 6 Miscellaneous Expenses
- 7 Income Tax

REFERENCE:
RLM Testimony
RLM Testimony

Testimony, RLM And Schedule RLM-8
Testimony, RLM And Schedule RLM-9
RLM Testimony
RLM Testimony
RLM Testimony
RLM Testimony
RLM Testimony, and Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Adjusted Test Year Revenue	Schedule RLM-7	\$ 796,161	
2	Adjusted Test Year Revenue	Schedule RLM-7	796,161	
3	RUCO Proposed Revenue	Schedule RLM-6	828,938	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 2,421,260	
5	Average Annual Operating Revenues	Line 4 / 3	807,087	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 1,614,173
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,689,307	
8	10% Of CWIP	Line 7 X 10%		\$ 168,931
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,783,104
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 410,114	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	10.30%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	10.30%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 42,232
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		37,922
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 4,310
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 4,310

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) RUCO DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ -	0.00%	\$ -
2	352000	Franchises	364	0.00%	-
3	354200	Structures and Improvements	201,579	2.80%	5,644
4	360000	Sewer Lines	5,382	2.00%	108
5	361100	WW Collecting Mains	1,615,707	2.00%	32,314
6	362000	WW Special Collecting Struct.	74,760	2.00%	1,495
7	363000	WW Services Sewer	314,343	2.04%	6,413
8	364000	WW Flow Measuring Devices	23,113	5.42%	1,253
9	371100	WW Pumping Equipment Elect.	18,935	5.42%	1,026
10	380100	WW Equipment Sed Tanks/Acc	803,788	3.60%	28,936
11	380300	WW TD Equipment Sldge Dry/Fit	1,427,808	5.00%	71,390
12	380500	WW TD Equipment Chem Trmt Plant	14,311	5.00%	716
13	380600	WW TD Equipment Other Disposal	479,569	5.00%	23,978
14	393000	WW Tool Shop & Garage Equipment	44,237	4.47%	1,977
15	394000	WW Laboratory Equipment	587	3.71%	22
16	396000	Communication Equipment	81,418	10.30%	8,386
17	398000	Other Plant	5,357	5.10%	273
18	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 5,111,259		\$ 183,932
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE			-
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 183,932
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			(18,093)
49		AMORTIZATION OF REGULATORY CIAC			(32,497)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				\$ 133,342
52	Company As Filed				248,398
53	Difference				\$ (115,056)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (115,056)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)
Represents 50% of Post Test Year Treatment Plant

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 201,637
	LESS:		
2	Arizona State Tax	Line 11	8,520
3	Interest Expense	Note (A) Line 20	79,371
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 113,747
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	27.39%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 31,152
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 201,637
	LESS:		
8	Interest Expense	Note (A) Line 20	79,371
9	State Taxable Income	Line 7 - Line 8	\$ 122,266
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 8,520
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 31,152
13	State Income Tax Expense	Line 11	8,520
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 39,672
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(76,894)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 116,566
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 116,566

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 2,631,542
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 79,371

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) DWELLING UNIT COUNT	(C) ANN'ZED ADJUSTM'TS	(D) TEST YEAR ADJUSTED DETERMIN'TS	(E) PRESENT CHARGES & USAGE FEES	(F) RUCO TEST YEAR REVENUES	(G) TOTAL REVENUES
1	RESIDENTIAL CUSTOMERS P1MS1	1,215	14,583	-	14,583	\$ 51.67	\$ 753,524	<u>\$ 753,524</u>
2	COMMERCIAL CUSTOMERS P2MS1	5	132	-	132	\$ 51.67	\$ 6,821	<u>\$ 6,821</u>
3	P2MS4	2	26	-	26	\$ 66.60	\$ 1,747	<u>\$ 1,747</u>
4	Volume Charge - All Usage	214,945	5,638	-	5,638	\$ 4.60	\$ 25,953	<u>\$ 25,953</u>
								<u>\$ 27,700</u>
5	TOTAL COMMERCIAL CUSTOMERS REVENUE							<u>\$ 34,521</u>
6	OPA CUSTOMERS P4MS1	13	156	-	156	\$ 51.67	\$ 8,061	<u>\$ 8,061</u>
7	EFFLUENT SALES CUSTOMERS P7A1	1	206	-	206	\$ 143.85	\$ 29,704	<u>\$ 29,704</u>
8	TOTAL MOHAVE WASTEWATER - BILLED REVENUES							<u>\$ 825,809</u>
9	RESIDENTIAL	1,215	14,583	-	14,583	\$ 51.67	\$ 753,524	\$ 753,524
10	COMMERCIAL							
	P2MS1	5	132	-	132	\$ 51.67	\$ 6,821	
	P2MS4	2	26	-	26	\$ 66.60	\$ 1,747	\$ 8,568
11	P2MS4 - VOLUME CHARGE	214,945	5,638	-	5,638	\$ 4.60	\$ 25,953	\$ 25,953
12	OPA	13	156	-	156	\$ 51.67	\$ 8,061	\$ 8,061
13	EFFLUENT SALES	1	206	-	206	\$ 143.85	\$ 29,704	\$ 29,704
14	TOTAL MOHAVE WASTEWATER							
15	BILLED REVENUES	1,229						<u>\$ 825,809</u>
38	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT							<u>\$ 825,809</u>
39	Unreconciled Difference vs. Billed Revenues							<u>(1,753)</u>
40	REVENUE PER BILL COUNT							<u>824,056</u>
	Other Revenue							<u>4,882</u>
41								
42	TOTAL REVENUE							<u>\$ 828,938</u>
	PROPOSED REVENUE PER FILING							<u>\$ 828,938</u>
	Difference							<u>\$ 0</u>
43	Percentage Difference							<u>0.00%</u>
44								
47								

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A) PRESENT	(B) PRESENT	(C) COMPANY PROPOSED	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 724,046	91.35%	\$ 1,309,553	91.25%	\$ 874,671	92.20%
2	OTHER	68,553	8.65%	125,626	8.75%	73,962	7.80%
3	TOTAL	\$ 792,599	100.00%	\$ 1,435,179	100.00%	\$ 948,633	100.00%
ALLOCATION RATIOS							
4	FIX REVENUE	\$ 740,024	93.37%	\$ 1,338,452	93.26%	\$ 884,027	93.19%
5	VARIABLE REVENUE	52,575	6.63%	96,728	6.74%	64,606	6.81%
6	TOTAL	\$ 792,599	100.00%	\$ 1,435,179	100.00%	\$ 948,633	100.00%
RESIDENTIAL (5/8" X 3/4") RATE DESIGN							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 49.65		\$ 89.80		\$ 59.98	
COMMODITY CHARGE							
		PRESENT		PROPOSED			
8	Flat Rate	Flat Rate	\$ 2.00	\$ 8.00		\$ 5.34	
9	Effluent - All Acre Feet	Effluent - All Acre Feet	\$ 200.00	\$ 250.00		\$ 166.98	
RESIDENTIAL BILL COMPARISONS							
		MONTHLY CONSUMPTION		PRESENT MONTHLY CHARGE	RUCO PROP'D MONTHLY CHARGE	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
10	Flat Rate			\$ 49.65	\$ 59.98	\$ 10.33	20.80%

PARADISE VALLEY WATER DISTRICT

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SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
SURREBUTTAL TESTIMONY, RLM		ACRM REVENUE
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SURREBUTTAL TESTIMONY, RLM		WATER TESTING EXPENSE
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SURR RD-1	1 & 2	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

SURREBUTTAL REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 40,864,986	\$ 39,222,581
2	Adjusted Operating Income (Loss)	\$ 1,552,498	\$ 2,057,329
3	Current Rate Of Return (L2 / L1)	3.80%	5.25%
4	Required Operating Income (L5 X L1)	\$ 3,432,659	\$ 2,745,581
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 1,880,161	\$ 688,252
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6496	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 3,101,550	\$ 1,120,911
9	Adjusted Test Year Revenue	\$ 7,848,732	\$ 8,220,585
10	Proposed Annual Revenue (L8 + L9)	\$ 10,950,282	\$ 9,341,496
11	Required Percentage Increase In Revenue (L8 / L9)	39.52%	13.64%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

SURREBUTTAL GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,745,581			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	2,057,329			
13	Required Increase In Operating Income (L11 - L12)		\$ 688,252		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 981,336			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	548,677			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 432,659		
17	Total Required Increase In Revenue (L13 + L16)		\$ 1,120,911		
CALCULATION OF INCOME TAX:					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 9,341,496	
20	Synchronized Interest (Col. (C), L37)			5,614,579	
21	Arizona Taxable Income (L18 - L19 - L20)			1,184,522	
22	Arizona State Income Tax Rate			\$ 2,542,395	
23	Arizona Income Tax (L21 X L22)			6.9680%	
24	Fed. Taxable Income (L21 - L23)			\$ 2,365,241	\$ 177,154
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			690,282	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 804,182
31	Combined Federal And State Income Tax (L23 + L30)				\$ 981,336
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 548,677
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 432,659
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 39,222,581	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,184,522	

SURREBUTTAL RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ (70,735)	\$ 61,517,713
2	Accumulated Depreciation	(12,099,985)	476,662	(11,623,323)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 49,488,462</u>	<u>\$ 405,927</u>	<u>\$ 49,894,389</u>
				0
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ (322,588)	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	5,539,222
7	NET CIAC (L6 + L7)	<u>\$ (7,250,116)</u>	<u>\$ (322,588)</u>	<u>\$ (7,572,704)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ (1,083,637)	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ (642,107)	\$ 63,608
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 40,864,986</u>	<u>\$ (1,642,405)</u>	<u>\$ 39,222,581</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SURREBUTTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUTL ADJMT NO. 1	(C) ADJMT NO. 1 ACCUMULTD DEPRECTN	(D) ADJMT NO. 2 CIAC FOR CWIP	(E) REVISED POST TY PLANT	(F) ADJMT NO. 3 ACCUMULTD DEPRECTN	(G) REVISED ADJMT NO. 4 GROSS PLANT	(H) ADJMT NO. 5 DEFERRED DEBITS	(I) ADJMT NO. 6 WORKING CAPITAL	(J) RUCO ADJTD OCB/FV/RB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ (180,916)	\$ (100,554)	\$ -	\$ 110,182	\$ -	\$ -	\$ -	\$ -	\$ 61,517,113
2	Accumulated Depreciation	(12,099,985)	120,802	(100,554)	-	-	456,414	-	-	-	(11,623,323)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 49,488,462	\$ (60,114)	\$ (100,554)	\$ -	\$ 110,182	\$ 456,414	\$ -	\$ -	\$ -	\$ 49,884,389
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ -	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	-	-	-	-	-	-	-	5,539,222
7	NET CIAC (L5 + L6)	\$ (7,250,116)	\$ -	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,572,704)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,083,637)	\$ -	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (642,107)	\$ 63,608
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 40,864,986	\$ (60,114)	\$ (100,554)	\$ (322,588)	\$ 110,182	\$ 456,414	\$ -	\$ (1,083,637)	\$ (642,107)	\$ 39,222,581

SURREBUTTAL ADJUSTMENTS:

Column (B): Surrebittal Adjustment No. 1 - Adjust Test-Year Gross Plant & Accumulated Depreciation Per Company Rebuttal

References: Column (A): Company Schedule B-2
Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation Per Company Responses To RUCO Data Request 1.31
Column (D): Adjustment No. 2 - Reverse Company's Adjustment LUG-6 To Remove CIAC Associated With CWIP
Column (E): Adjustment No. 3 - Adjust Post Test-Year Plant Per Company Responses To RUCO Data Request 1.34
Column (F): Adjustment No. 4 - Adjust Test-Year Accumulated Depreciation First For Company Revised Dep. Rates Per Response To RUCO Data Request 1.07 & 1.08
And Second RUCO Computed Acc. Dep. Using A Mid-Month Convention.
Column (G): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request DH 4.3
Column (H): Adjustment No. 6 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
Column (I): Adjustment No. 7 - Adjust Allowance For Working Capital To Reflect RUCO Operating Income Adjustments And the Disallowance Of Depreciation Expense In The Allowance.
Column (J): Sum Of Columns (A), (B), (C), (D), (E), (F), (G), (H) & (I)

SURREBUTTAL OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMTS	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 7,832,113	\$ 371,853	\$ 8,203,966	\$ 1,120,911	\$ 9,324,877
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	16,619	-	16,619	-	16,619
4	TOTAL OPERATING REVENUE	<u>\$ 7,848,732</u>	<u>\$ 371,853</u>	<u>\$ 8,220,585</u>	<u>\$ 1,120,911</u>	<u>\$ 9,341,496</u>
	Operating Expenses:					
5	Labor	\$ 715,859	\$ (12,536)	\$ 703,323	\$ -	\$ 703,323
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	693,068	-	693,068	-	693,068
8	Chemicals	236,982	(51,945)	185,037	-	185,037
9	Waste Disposal	(290)	290	-	-	-
10	Management Fees	923,778	(11,119)	912,659	-	912,659
11	Group Insurance	184,827	-	184,827	-	184,827
12	Pensions	130,911	-	130,911	-	130,911
13	Regulatory Expense	21,283	-	21,283	-	21,283
14	Insurance Other Than Group	45,435	-	45,435	-	45,435
15	Customer Accounting	123,742	-	123,742	-	123,742
16	Rents	21,467	-	21,467	-	21,467
17	General Office Expense	87,860	-	87,860	-	87,860
18	Miscellaneous	351,828	(10,096)	341,732	-	341,732
19	Maintenance Expense	578,292	(367,350)	210,942	-	210,942
20	Depreciation & Amortization	1,615,824	(26,530)	1,589,294	-	1,589,294
21	General Taxes - Property Taxes	268,996	26,030	295,026	-	295,026
22	General Taxes - Other	67,972	-	67,972	-	67,972
23	Income Tax	228,400	320,277	548,677	432,659	981,336
24	Rounding	1	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 6,296,235</u>	<u>\$ (132,978)</u>	<u>\$ 6,163,256</u>	<u>\$ 432,659</u>	<u>\$ 6,595,915</u>
26	OPERATING INCOME (LOSS)	<u>\$ 1,552,497</u>	<u>\$ 504,831</u>	<u>\$ 2,057,329</u>	<u>\$ 688,252</u>	<u>\$ 2,745,581</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SURREBUTTAL SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUT'L ACRM REVENUE	(C) SURREBUT'L ADJMT NO. 1	(D) SURREBUT'L ADJMT NO. 2	(D) SURREBUT'L ADJMT NO. 3	(D) SURREBUT'L ADJMT NO. 5	(D) WATER TEST TANK MAINTENANCE EXPENSE	(E) REVISED PROPERTY TAX	(F) REVISED DEPRECIATN & AMORTIZN	(G) ADJMT NO. 2 WASTE DISPOSAL	(H) ADJMT NO. 4 CHEMICAL EXPENSE	(I) ADJMT NO. 5 AIP EXPENSE	(J) ADJMT NO. 6 MISC EXPENSES	(K) REVISED INCOME TAX	(L) RUCO AS ADJTD
1	Revenues:															
2	Metered Water Revenues	\$ 7,832,113	\$ 371,853	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,203,966
3	Unmetered Water Revenues	16,619	-	-	-	-	-	-	-	-	-	-	-	-	-	16,619
4	Other Water Revenues	7,848,732	371,853	-	-	-	-	-	-	-	-	-	-	-	-	8,220,585
5	TOTAL OPERATING REV.															
6	Operating Expenses:															
7	Labor	\$ 715,859	\$ -	\$ (12,536)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 703,323
8	Purchased Water	693,068	-	-	-	-	-	-	-	-	-	-	-	-	-	693,068
9	Fuel & Power	236,992	-	-	-	-	-	-	-	-	-	-	-	-	-	236,992
10	Chemicals	(290)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Waste Disposal	923,778	-	-	-	-	-	-	-	-	290	-	-	-	-	912,659
12	Management Fees	134,827	-	-	-	-	-	-	-	-	-	-	-	-	-	134,827
13	Group Insurance	130,911	-	-	-	-	-	-	-	-	-	-	-	-	-	130,911
14	Pensions	21,283	-	-	-	-	-	-	-	-	-	-	-	-	-	21,283
15	Regulatory Expense	45,435	-	-	-	-	-	-	-	-	-	-	-	-	-	45,435
16	Insurance Other Than Group	123,742	-	-	-	-	-	-	-	-	-	-	-	-	-	123,742
17	Customer Accounting	21,467	-	-	-	-	-	-	-	-	-	-	-	-	-	21,467
18	Rents	87,860	-	-	-	-	-	-	-	-	-	-	-	-	-	87,860
19	General Office Expense	351,828	-	-	-	-	-	-	-	-	-	-	-	-	-	351,828
20	Miscellaneous	578,292	-	-	-	-	-	-	-	-	-	-	-	-	-	578,292
21	Maintenance Expense	1,615,824	-	-	-	-	-	-	-	-	-	-	-	-	-	1,615,824
22	Depreciation & Amortization	268,956	-	-	-	-	-	-	-	-	-	-	-	-	-	268,956
23	General Taxes - Property Taxes	67,972	-	-	-	-	-	-	-	-	-	-	-	-	-	67,972
24	General Taxes - Other	228,400	-	-	-	-	-	-	-	-	-	-	-	-	-	228,400
25	Income Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
26	Rounding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	TOTAL OPERATING EXP.	\$ 6,295,235	\$ -	\$ (12,536)	\$ (6,293)	\$ (367,350)	\$ (6,293)	\$ (367,350)	\$ 28,030	\$ (28,530)	\$ 290	\$ (51,945)	\$ (11,119)	\$ (3,803)	\$ 320,277	\$ 6,163,256
28	OPERATING INC. (LOSS)	\$ 1,552,497														\$ 2,057,329

SURREBUTTAL ADJUSTMENTS:

- 1 ACRM Revenue
- 2 Labor Expense
- 3 Tank Maintenance
- 3 Water Testing Expense

REFERENCE:

- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Waste Disposal Expense
- 4 Chemical Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 8,220,585	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	8,220,585	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,341,496	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 25,782,666	
5	Average Annual Operating Revenues	Line 4 / 3	8,594,222	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 17,188,444
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,438,015	
8	10% Of CWIP	Line 7 X 10%		\$ 143,802
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 17,332,245
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,986,416	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	7.40%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	7.40%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 295,026
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		268,996
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 26,030
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 26,030

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 15,350	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	339600	Miscellaneous Intangibles	10,520	0.00%	-
4	303200	Land & Land Rights SS	-	0.00%	-
5	303300	Land & Land Rights P	-	0.00%	-
6	303500	Land & Land Rights TD	8,324	0.00%	-
7	303600	Land & Land Rights AG	-	0.00%	-
8	304100	Struct & Imp SS	(489,625)	2.50%	(12,241)
9	304200	Struct & Imp P	-	3.99%	-
10	304300	Struct & Imp WT	20,468,880	2.00%	409,378
11	304400	Struct & Imp TD	23,764	1.50%	356
12	304500	Struct & Imp AG	5,731	3.99%	229
13	304600	Struct & Imp Offices	-	0.00%	-
14	304700	Struct & Imp Store, Shop, & Garage	3,036	3.99%	121
15	304800	Struct & Imp Misc	(8,633)	3.99%	(344)
16	305000	Collect & Impounding	-	0.00%	-
17	307000	Wells & Springs	1,644,156	2.48%	40,775
18	310100	Power Generation Equip Other	554,631	4.39%	24,348
19	311200	Pump Equip Electric	3,487,801	4.39%	153,114
20	311300	Pump Equip Diesel	190	4.39%	8
21	311500	Pump Equip Other	-	0.00%	-
22	320100	WT Equip Non-Media	9,826,154	7.06%	693,726
23	309000	Supply Mains	-	1.11%	-
24	330000	Dist Reservoirs & Standpipe	2,115,945	3.15%	66,652
25	331001	TD Mains Not Classified By Size	2,395,291	0.00%	-
26	331100	TD Mains 4in & Less	114,959	4.17%	4,794
27	331200	TD Mains 6in to 8in	5,046,297	2.52%	127,167
28	331300	TD Mains 10in to 16in	9,132,419	2.34%	213,699
29	332000	Fire Mains	14,058	1.53%	215
30	333000	Services	2,724,759	4.72%	128,609
31	334100	Meters	350,869	2.51%	8,807
32	334200	Meter Installations	148,305	1.51%	2,239
33	335000	Hydrants	1,054,321	2.10%	22,141
34	339100	Other P/E Intangible	-	0.00%	-
35	339500	Other P/E TD	-	0.00%	-
36	340100	Office Furniture & Equip	58,812	4.04%	2,376
37	340200	Comp & Periph Equip	38,291	10.00%	3,829
38	340300	Computer Software	14,710	25.00%	3,678
39	340500	Other Office Equipment	674	7.13%	48
40	341100	Trans Equip Lt Duty Trks	(0)	22.00%	(0)
41	341300	Trans Equip Autos	3,541	7.80%	276
42	341400	Trans Equip Other	27,905	0.93%	260
43	343000	Tools,Shop,Garage Equip	111,116	3.61%	4,011
44	344000	Laboratory Equipment	17,620	10.00%	1,762
45	345000	Power Operated Equipment	96,131	4.64%	4,460
46	346100	Comm Equip Non-Telephone	386,889	9.76%	37,760
47	346300	Comm Equip Other	58,841	4.93%	2,901
48	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 59,462,031		\$ 1,945,155
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	120,225		26,819
	TOTAL	DEPRECIATION EXPENSE ON UPIS			1,971,973
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			72
47		AMORTIZATION OF REGULATORY ASSETS			(382,752)
48		AMORTIZATION OF CONTRIBUTIONS			-
49		AMORTIZATION OF REGULATORY CIAC			1
50		Rounding			\$ 1,589,294
51	TOTAL DEPRECIATION EXPENSE				1,615,824
52	Company As Filed				\$ (26,530)
53	Difference				\$ (26,530)
54	RUCO Adjustment (See RLM-7, Column (C))				

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 2,606,006
	LESS:		
2	Arizona State Tax	Line 11	99,049
3	Interest Expense	Note (A) Line 20	1,184,522
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 1,322,435
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 449,628
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 2,606,006
	LESS:		
8	Interest Expense	Note (A) Line 20	1,184,522
9	State Taxable Income	Line 7 - Line 8	\$ 1,421,484
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 99,049
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 449,628
13	State Income Tax Expense	Line 11	99,049
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 548,677
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		228,400
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 320,277
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 320,277

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 39,222,581
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,184,522

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMINTS	(B) ANN'ZED ADJUSTMTS	(C) TEST YEAR ADJUSTED DETERMINTS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	P1M1A - 5/8"	2,258	-5	2,253	\$ 29.16	\$ 788,377	
2	P1M1A - 3/4"	32	-0.08	32	\$ 30.17	11,598	
3	P1M1A - 1"	1,926	-4	1,921	\$ 48.65	1,121,659	
4	P1M1A - 1-1/2"	64	0	64	\$ 98.22	75,110	
5	P1M1A - 2"	138	0	138	\$ 156.53	259,398	
6	P1M1B - MMWC 5/8"	2	0	2	\$ 29.16	699	
7	P1M1B - MMWC 1"	43	0	43	\$ 48.65	25,190	
8	P1M1B - MMWC 1-1/2"	20	0	20	\$ 98.22	23,615	
9	P1M1B - MMWC 2"	11	0	11	\$ 156.53	20,678	
10	Total Customers	<u>4,494</u>	<u>-9</u>	<u>4,484</u>			\$ 2,326,324
Commodity Usage							
11	First Tier - First 25,000 Gals.	892,767	-2,550	890,216	\$ 1.3417	\$ 1,194,436	
12	Second Tier - Next 55,000 Gals.	796,125	-1,685	794,440	\$ 2.3258	1,847,733	
13	Third Tier - Over 80,000 Gals.	548,980	-253	548,727	\$ 2.9120	1,597,879	
14	Total Usage	<u>2,237,872</u>	<u>-4,489</u>	<u>2,233,383</u>			\$ 4,640,048
15	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 6,966,372</u>
COMMERCIAL CUSTOMERS							
16	P2M1A - 5/8"	67	-0.42	67	\$ 29.16	\$ 23,386	
17	P2M1A - 3/4"	1	0	1	\$ 30.17	362	
18	P2M1A - 1"	51	-0.33	51	\$ 48.65	29,678	
19	P2M1A - 1-1/2"	25	-0.17	24	\$ 98.22	28,713	
20	P2M1A - 2"	123	-1	123	\$ 156.53	230,235	
21	P2M1A - 3"	25	0	25	\$ 290.04	85,438	
22	P2M1A - 4"	1	0	1	\$ 482.65	5,792	
23	P2M1A - 6"	4	0	4	\$ 966.82	46,407	
24	Sub-Total Customers	<u>297</u>	<u>-2</u>	<u>295</u>			\$ 450,011
Commodity Usage							
25	First Tier	397,389	-2,917	394,472	\$ 2.3258	\$ 917,475	
26	Second Tier	173,333	0	173,333	\$ 3.1034	537,921	
27	Sub-Total Usage	<u>570,722</u>	<u>-2,917</u>	<u>567,805</u>			\$ 1,455,396
28	P2M1T - TURF 3"	1	0	1	\$ 290.04	2,358	
29	P2M1T - TURF 4"	0.33	0	0.33	\$ 482.65	1,931	
30	P2PVC - CC 6"	1	0	1	\$ 821.80	10,445	
31	Sub-Total Customers	<u>2</u>	<u>0</u>	<u>2</u>			\$ 14,734
Commodity Usage							
32	P2M1T - TURF 3" & 4"	39,969	0	39,969	\$ 1.9614	\$ 78,396	
33	P2PVC - CC 6"	185,447	0	185,447	\$ 1.9042	353,136	
34	Sub-Total Usage	<u>225,416</u>	<u>0</u>	<u>225,416</u>			\$ 431,531
35	Total Customers	<u>299</u>					
36	First Tier	<u>622,805</u>					
37	Second Tier	<u>173,333</u>					
38		<u>796,138</u>					
39	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 2,351,673</u>

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
OPA CUSTOMERS							
40	P4MIT - 3	<u>1</u>	<u>0</u>	<u>1</u>	\$ 290.04	\$3,480	
	Commodity Usage						
41	All Usage	<u>11,050</u>	<u>0</u>	<u>11,050</u>	\$ 1.9614	\$ 21,674	
42	Total Usage	<u>11,050</u>	<u>0</u>	<u>11,050</u>			\$ 25,154
43	TOTAL OPA CUSTOMERS REVENUE						<u>\$ 25,154</u>
SALE FOR RESALE CUSTOMERS							
44	P5M1A - OWU/OPA 5/8"	<u>5</u>	<u>0</u>	<u>5</u>	\$ 29.16	\$ 1,750	
45	P5M1A - OWU/OPA 1"	<u>10</u>	<u>0</u>	<u>10</u>	\$ 48.65	5,914	
46	P5M1A - OWU/OPA 2"	<u>5</u>	<u>0</u>	<u>5</u>	\$ 156.53	9,392	
47	Total Customers	<u>20</u>		<u>20</u>			\$ 17,056
	Commodity Usage						
48	All Usage	<u>7,855</u>	<u>0</u>	<u>7,855</u>	\$ 2.9493	\$ 23,166	
49	Total Usage	<u>7,855</u>	<u>0</u>	<u>7,855</u>			\$ 23,166
50	TOTAL SALE FOR RESALE CUSTOMERS REVENUE						<u>\$ 40,222</u>
PRIVATE FIRE PROTECTION CUSTOMERS							
51	P6M1A	<u>69</u>	<u>0</u>	<u>69</u>	\$ 26.04	\$ 21,592.46	
52	Commodity Usage	-	0	-	No Charge		
53	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						<u>\$ 21,592</u>
54	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						<u>\$ 9,405,014</u>
55	Unreconciled Difference vs. Billed Revenues						<u>(80,137)</u>
56	REVENUE PER BILL COUNT						<u>9,324,877</u>
57	Other Water Revenues						<u>16,619</u>
58	TOTAL REVENUE						<u>9,341,496</u>
59	PROPOSED REVENUE						<u>\$ 9,341,496</u>
60	Difference						<u>\$ 0</u>

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
	REVENUE ALLOCATION						
1	RESIDENTIAL	\$ 6,138,486	77.75%	\$ 8,672,282	78.74%	\$ 6,962,424	74.07%
2	OTHER	\$ 1,756,288	22.25%	\$ 2,341,517	21.26%	\$ 2,437,259	25.93%
3	TOTAL	\$ 7,894,774	100.00%	\$ 11,013,799	100.00%	\$ 9,399,683	100.00%
	ALLOCATION RATIOS						
4	FIX REVENUE	2,016,921	44.63%	\$ 2,720,360	24.70%	\$ 2,831,592	30.12%
5	VARIABLE REVENUE	2,502,680	55.37%	\$ 8,293,438	75.30%	\$ 6,568,091	69.88%
6	TOTAL	4,519,601	100.00%	\$ 11,013,799	100.00%	\$ 9,399,683	100.00%
	RESIDENTIAL (5/8" X 3/4") RATE DESIGN						
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 24.34		\$ 28.00		\$ 29.16	
	COMMODITY CHARGE						
	PRESENT PROPOSED						
8	First Tier - First 25,000 Gals. First Tier - First 25,000 Gals.	\$ 1.2134		\$ 1.2883		\$ 1.3417	
9	Second Tier - Next 55,000 Gals. Second Tier - Next 55,000 Gals.	\$ 2.1034		\$ 2.2332		\$ 2.3258	
10	Third Tier - Over 80,000 Gals. Third Tier - Over 80,000 Gals.	\$ 2.6334		\$ 2.7960		\$ 2.9120	
	RESIDENTIAL BILL COMPARISONS						
	COST OF WATER SERVICE						
	AT DIFFERENT LEVELS OF USAGE						
	WITH PERCENTAGE INCREASE IN BILL						
		MONTHLY CONSUMPTION	% OF AVERAGE MONTH USAGE OF 20,493 Gal.	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		5,123	25.00%	\$ 30.56	\$ 36.04	\$ 5.48	17.93%
12		10,472	50.00%	\$ 37.05	\$ 43.21	\$ 6.17	16.64%
13		20,493	100.00%	\$ 49.21	\$ 56.66	\$ 7.45	15.14%
14		30,740	150.00%	\$ 69.79	\$ 76.06	\$ 6.26	8.98%
15		40,986	200.00%	\$ 96.77	\$ 99.89	\$ 3.11	3.22%

SUN CITY WEST WATER DISTRICT

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SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

SURREBUTTAL REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 37,901,085	\$ 38,260,070
2	Adjusted Operating Income (Loss)	\$ 587,425	\$ 609,674
3	Current Rate Of Return (L2 / L1)	1.55%	1.59%
4	Required Operating Income (L5 X L1)	\$ 3,183,691	\$ 2,678,205
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 2,596,266	\$ 2,068,531
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6471	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 4,276,305	\$ 3,368,882
9	Adjusted Test Year Revenue	\$ 5,701,431	\$ 5,857,266
10	Proposed Annual Revenue (L8 + L9)	\$ 9,977,736	\$ 9,226,148
11	Required Percentage Increase In Revenue (L8 / L9)	75.00%	57.52%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

SURREBUTTAL GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,678,205			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	609,674			
13	Required Increase In Operating Income (L11 - L12)		\$ 2,068,531		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 957,254			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(343,097)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 1,300,351		
17	Total Required Increase In Revenue (L13 + L16)		\$ 3,368,882		
CALCULATION OF INCOME TAX:					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 9,226,148	
20	Synchronized Interest (Col. (C), L37)			5,590,689	
21	Arizona Taxable Income (L18 - L19 - L20)			1,155,454	
22	Arizona State Income Tax Rate			\$ 2,480,005	
23	Arizona Income Tax (L21 X L22)			6.9680%	\$ 172,807
24	Fed. Taxable Income (L21 - L23)			\$ 2,307,198	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			670,547	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)			\$ 784,447	
31	Combined Federal And State Income Tax (L23 + L30)			\$ 957,254	
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)			\$ (343,097)	
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)			\$ 1,300,351	
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 38,260,070	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,155,454	

SURREBUTTAL RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 48,893,385	\$ 58,091	\$ 48,951,476
2	Accumulated Depreciation	(10,514,488)	(86,736)	(10,601,224)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 38,378,897</u>	<u>\$ (28,645)</u>	<u>\$ 38,350,252</u>
4	Advances In Aid Of Const.	\$ (1,175,373)	\$ -	\$ (1,175,373)
5	Contribution In Aid Of Const.	\$ (20,548)	\$ (17,318)	\$ (37,866)
6	Accumulated Amortization Of CIAC	1,057	-	1,057
7	NET CIAC (L6 + L7)	<u>\$ (19,491)</u>	<u>\$ (17,318)</u>	<u>\$ (36,809)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (392,368)	\$ -	\$ (392,368)
10	Customer Meter Deposits	\$ (1,225)	\$ -	\$ (1,225)
11	Deferred Income Taxes And Credits	\$ 1,326,577	\$ -	\$ 1,326,577
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ (777,486)	\$ 892,284	\$ 114,798
14	Allowance For Working Capital	\$ 561,556	\$ (487,336)	\$ 74,220
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ (2)	\$ -	\$ (2)
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 37,901,085</u>	<u>\$ 358,985</u>	<u>\$ 38,260,070</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SURREBUTTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 CIAC FOR CWIP	(D) ADJMT NO. 3 UPIS/ACC DEP PER DR DH 4.3	(E) REVISED ADJMT NO. 4 UPIS/ACC DEP PER DR GB 9.4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 48,893,385	\$ -	\$ -	\$ 76,672	\$ (18,581)	\$ -	\$ -	\$ 48,951,476
2	Accumulated Depreciation	(10,514,488)	(12,580)	-	(76,531)	2,375	-	-	(10,601,224)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 38,378,897	\$ 12,580	\$ -	\$ 141	\$ (16,206)	\$ -	\$ -	\$ 38,350,252
4	Advances In Aid Of Const.	\$ (1,175,373)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,175,373)
5	Contribution In Aid Of Const.	\$ (20,548)	\$ -	\$ (17,318)	\$ -	\$ -	\$ -	\$ -	\$ (37,866)
6	Accumulated Amortization Of CIAC	1,057	-	-	-	-	-	-	1,057
7	NET CIAC (L5 + L6)	\$ (19,491)	\$ -	\$ (17,318)	\$ -	\$ -	\$ -	\$ -	\$ (36,809)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (392,368)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (392,368)
10	Customer Meter Deposits	\$ (1,225)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,225)
11	Deferred Income Taxes And Credits	\$ 1,326,577	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,326,577
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ (777,486)	\$ -	\$ -	\$ -	\$ -	\$ 892,284	\$ -	\$ 114,798
14	Allowance For Working Capital	\$ 561,556	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (487,336)	\$ 74,220
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ (2)	\$ (2)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2)
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 37,901,085	\$ 12,580	\$ (17,318)	\$ 141	\$ (16,206)	\$ 892,284	\$ (487,336)	\$ 38,260,070

References:

- Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Conforming Adjustment Per Company Response to Staff DR DH 4.3
Column (E): Adjustment No. 4 - Conforming Adjustment Per Company Response to Staff DR GB 9.4
Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 56,510	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	56,510	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 24,906	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	24,906	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 480,140	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	(7,196)	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (487,336)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (487,336)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 703,217	\$ (13,569)	\$ 689,648	12.00	\$ 8,275,776
2	Purchased Water	(2,690)	-	(2,690)	(37.17)	99,987
3	Fuel & Power	830,074	-	830,074	32.42	26,912,078
4	Chemicals	227,889	-	227,889	18.06	4,114,536
5	Management Fees	999,903	(12,035)	987,868	10.40	10,273,824
6	Group Insurance	191,120	-	191,120	(14.08)	(2,691,333)
7	Pensions	137,699	-	137,699	45.00	6,196,455
8	Insurance Other Than Group	58,622	-	58,622	(68.27)	(4,002,165)
9	Customer Accounting	133,476	-	133,476	19.76	2,637,194
10	Rents	14,331	-	14,331	(10.50)	(150,476)
11	Depreciation & Amortization	1,323,541	(1,323,541)	-	-	-
12	Other Operating Expenses	575,155	(85,529)	489,625	30.00	14,688,760
	Taxes:					
13	Property Taxes	179,896	40,691	220,587	15.07	3,325,257
14	Taxes Other Than Income	65,832	-	65,832	212.50	13,989,300
15	Income Tax	1,308,459	(1,651,556)	(343,097)	28.75	(9,864,028)
16	Interest Expense	-	1,155,454	1,155,454	106.52	123,078,971
17	Total Appropriate Operating Expenses	<u>\$ 6,746,524</u>	<u>\$ (1,890,085)</u>	<u>\$ 4,856,438</u>		<u>\$ 196,884,137</u>
18	Expense Lag	Line 17, Col. (E) / (C)	40.54			
19	Revenue Lag	Company Response To RUCO DR 8	40.00			
20	Net Lag	Line 19 - Line 18	(0.54)			
21	RUCO Adjusted Expenses	Col. (C), Line 17	<u>\$ 4,856,438</u>			
22	Cash Working Capital	Line 20 X Line 21 / 365 Days	<u>(7,196)</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	480,140			
24	Difference	Line 22 - Line 23	<u>\$ (487,336)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 24	<u>\$ (487,336)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

SURREBUTTAL OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 5,661,030	\$ 155,835	\$ 5,816,865	\$ 3,368,882	\$ 9,185,747
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	40,401	-	40,401	-	40,401
4	TOTAL OPERATING REVENUE	<u>\$ 5,701,431</u>	<u>\$ 155,835</u>	<u>\$ 5,857,266</u>	<u>\$ 3,368,882</u>	<u>\$ 9,226,148</u>
	Operating Expenses:					
5	Labor	\$ 703,217	\$ (13,569)	\$ 689,648	\$ -	\$ 689,648
6	Purchased Water	(2,690)	-	(2,690)	-	(2,690)
7	Fuel & Power	830,074	-	830,074	-	830,074
8	Chemicals	227,889	-	227,889	-	227,889
9	Waste Disposal	4,391	313	4,704	-	4,704
10	Management Fees	999,903	(12,035)	987,868	-	987,868
11	Group Insurance	191,120	-	191,120	-	191,120
12	Pensions	137,699	-	137,699	-	137,699
13	Regulatory Expense	33,802	(9,737)	24,065	-	24,065
14	Insurance Other Than Group	58,622	-	58,622	-	58,622
15	Customer Accounting	133,476	-	133,476	-	133,476
16	Rents	14,331	-	14,331	-	14,331
17	General Office Expense	57,226	-	57,226	-	57,226
18	Miscellaneous	232,408	(4,692)	227,716	-	227,716
19	Maintenance Expense	247,328	(47,349)	199,979	-	199,979
20	Depreciation & Amortization	1,323,541	199,003	1,522,544	-	1,522,544
21	General Taxes - Property Taxes	179,896	40,691	220,587	-	220,587
22	General Taxes - Other	65,832	-	65,832	-	65,832
23	Income Tax	(324,059)	(19,038)	(343,097)	1,300,351	957,254
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 5,114,006</u>	<u>\$ 133,586</u>	<u>\$ 5,247,592</u>	<u>\$ 1,300,351</u>	<u>\$ 6,547,943</u>
26	OPERATING INCOME (LOSS)	<u>\$ 587,425</u>	<u>\$ 22,249</u>	<u>\$ 609,674</u>	<u>\$ 2,068,531</u>	<u>\$ 2,678,205</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SURREBUTTAL SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUTL ACRM REVENUE	(C) SURREBUTL TANK MAINTENANCE	(D) SURREBUTL WATER TEST EXPENSE	(E) ADJMT NO. 1 PROPERTY TAX	(F) ADJMT NO. 2 DEPRECIATION & AMORTIZN	(G) ADJMT NO. 3 RATE CASE EXPENSE	(H) ADJMT NO. 4 WASTE DISPOSAL	(I) ADJMT NO. 5 AIP EXPENSE	(J) ADJMT NO. 6 LABOR EXPENSE	(K) ADJMT NO. 7 MISC EXPENSE	(L) ADJMT NO. 8 INCOME TAX	(M) RUCO AS ADJTD
1	Revenues:													
2	Metered Water Revenues	\$ 5,661,030	\$ 155,835	-	-	-	-	-	-	-	-	-	-	\$ 5,816,865
3	Unmetered Water Revenues	40,401	-	-	-	-	-	-	-	-	-	-	-	40,401
4	Other Water Revenues	\$ 5,701,431	\$ 155,835	-	-	-	-	-	-	-	-	-	-	\$ 5,857,266
5	TOTAL OPERATING REV													
6	Operating Expenses:													
7	Labor	\$ 703,217	-	-	-	-	-	-	-	-	-	-	-	689,648
8	Purchased Water	(2,690)	-	-	-	-	-	-	-	-	-	-	-	(2,690)
9	Fuel & Power	830,074	-	-	-	-	-	-	-	-	-	-	-	830,074
10	Chemicals	227,889	-	-	-	-	-	-	-	-	-	-	-	227,889
11	Waste Disposal	4,391	-	-	-	-	-	-	313	-	-	-	-	4,704
12	Management Fees	999,903	-	-	-	-	-	-	-	(12,035)	-	-	-	987,868
13	Group Insurance	191,120	-	-	-	-	-	-	-	-	-	-	-	191,120
14	Pensions	137,699	-	-	-	-	-	-	-	-	-	-	-	137,699
15	Regulatory Expense	33,802	-	-	-	-	-	-	-	-	-	-	-	24,085
16	Insurance Other Than Group	58,622	-	-	-	-	-	-	-	-	-	-	-	58,622
17	Customer Accounting	133,476	-	-	-	-	-	-	-	-	-	-	-	133,476
18	Rents	14,331	-	-	-	-	-	-	-	-	-	-	-	14,331
19	General Office Expense	57,226	-	-	-	-	-	-	-	-	-	-	-	57,226
20	Miscellaneous	232,408	-	-	-	-	-	-	-	-	-	-	-	227,716
21	Maintenance Expense	247,328	-	-	-	-	-	-	-	-	-	-	-	199,979
22	Depreciation & Amortization	1,323,541	-	(47,349)	-	-	199,003	-	-	-	-	(1,299)	-	1,522,544
23	General Taxes - Property Taxes	179,896	-	-	-	40,691	-	-	-	-	-	-	-	220,587
24	General Taxes - Other	65,832	-	-	-	-	-	-	-	-	-	-	-	65,832
25	Income Tax	(324,059)	-	-	-	-	-	-	-	-	-	-	(19,038)	(343,097)
26	Rounding	-	-	-	-	-	-	-	-	-	-	-	-	-
27	TOTAL OPERATING EXP.	\$ 5,114,006	\$ -	\$ (47,349)	\$ (3,393)	\$ 40,691	\$ 199,003	\$ (9,737)	\$ 313	\$ (12,035)	\$ (13,569)	\$ (1,299)	\$ (19,038)	\$ 5,247,592
28	OPERATING INC. (LOSS)	\$ 587,425												\$ 609,674

SURREBUTTAL ADJUSTMENTS:
1 ACRM Revenue
3 Tank Maintenance
5 Water Testing Expenses

REFERENCE:
Surrebuttal Testimony, RLM
Surrebuttal Testimony, RLM
Surrebuttal Testimony, RLM

ADJUSTMENTS:
1 Property Tax Computation
2 Depreciation And Amortization Expense
3 Rate Case Expense
4 Waste Disposal Expense
5 Annual Incentive Pay Program Expense
6 Labor Expense
7 Miscellaneous Expenses
8 Income Tax

REFERENCE:
Testimony, RLM And Schedule RLM-8
Testimony, RLM And Schedule RLM-9
Testimony, RLM And Schedule RLM-10
Testimony, RLM
Testimony, RLM And Schedule RLM-11
Testimony, RLM
Testimony, RLM And Schedule RLM-12
Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 5,857,266	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	5,857,266	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,226,148	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 20,940,680	
5	Average Annual Operating Revenues	Line 4 / 3	6,980,227	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 13,960,453
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ (50,858)	
8	10% Of CWIP	Line 7 X 10%		\$ (5,086)
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 13,955,368
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,209,735	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	6.87%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	6.87%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 220,587
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		179,896
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 40,691
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 40,691

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 20,086	0.00%	\$ -
2	302000	Franchises	1,346	0.00%	-
3	303200	Land & Land Rights SS	11,651	0.00%	-
4	303300	Land & Land Rights P	44,957	0.00%	-
5	303500	Land & Land Rights TD	-	0.00%	-
6	303600	Land & Land Rights AG	-	0.00%	-
7	304100	Struct & Imp SS	7,620,980	2.50%	190,525
8	304200	Struct & Imp P	224,821	1.67%	3,755
9	304300	Struct & Imp WT	90,867	1.67%	1,517
10	304400	Struct & Imp TD	(441)	2.00%	(9)
11	304600	Struct & Imp Offices	17,269	4.63%	800
12	304800	Struct & Imp Misc	-	2.50%	-
13	305000	Collect & Impounding	-	0.00%	-
14	307000	Wells & Springs	2,587,201	2.52%	65,197
15	310100	Power Generation Equip Other	36,044	4.42%	1,593
16	311200	Pump Equip Electric	5,157,344	4.42%	227,955
17	311300	Pump Equip Diesel	11,177	5.00%	559
18	311500	Pump Equip Other	169,696	4.42%	7,501
19	320100	WT Equip Non-Media	6,346,604	7.06%	448,070
20	330000	Dist Reservoirs & Standpipe	760,063	1.67%	12,693
21	331001	TD Mains Not Classified By Size	13,055,020	1.53%	199,742
22	331100	TD Mains 4in & Less	614	1.53%	9
23	331200	TD Mains 6in to 8in	409,390	1.53%	6,264
24	331300	TD Mains 10in to 16in	252,697	1.53%	3,866
25	332000	Fire Mains	169	1.53%	3
26	333000	Services	7,342,743	2.48%	182,100
27	334100	Meters	1,756,083	2.51%	44,078
28	334200	Meter Installations	147,290	2.51%	3,697
29	335000	Hydrants	1,835,679	2.00%	36,714
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	2.00%	-
32	340100	Office Furniture & Equip	20,787	4.59%	954
33	340200	Comp & Periph Equip	41,437	10.00%	4,144
34	341100	Trans Equip Lt Duty Trks	225,178	25.00%	56,295
35	341200	Trans Equip Hvy Duty Trks	21,027	15.00%	3,154
36	342000	Stores Equipment	142	3.91%	6
37	343000	Tools, Shop, Garage Equip	19,641	4.02%	790
38	344000	Laboratory Equipment	1,607	3.71%	60
39	345000	Power Operated Equipment	161,886	5.02%	8,127
40	346100	Comm Equip Non-Telephone	163,135	10.30%	16,803
41	346300	Comm Equip Other	1,338	4.93%	66
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 48,555,528		\$ 1,527,024
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	390,490		87,107
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	5,456		247
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 1,614,378
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			5,841
47		AMORITZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			(515)
49		AMORTIZATION OF REGULATORY CIAC			(97,158)
50		Rounding			(2)
51	TOTAL DEPRECIATION EXPENSE				\$ 1,522,544
52	Company As Filed				1,323,541
53	Difference				\$ 199,003
54	RUCO Adjustment (See RLM-7, Column (C))				\$ 199,003

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 266,577
	LESS:		
2	Arizona State Tax	Line 11	(61,937)
3	Interest Expense	Note (A) Line 20	1,155,454
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (826,940)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ (281,160)
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 266,577
	LESS:		
8	Interest Expense	Note (A) Line 20	1,155,454
9	State Taxable Income	Line 7 - Line 8	\$ (888,877)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ (61,937)
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (281,160)
13	State Income Tax Expense	Line 11	(61,937)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ (343,097)
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(324,059)
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ (19,038)
17	RUCO Adjustment (See Sch. RLM-7, Column (H))	Line 16	\$ (19,038)

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 38,260,070
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,155,454

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	B1M1A - 5/8" & 3/4"	14,230	1	14,231	\$ 14.04	\$ 2,397,681	\$ 2,397,681
	Commodity Usage						
2	First Tier - First 4,000 Gals.	598,474	28	598,502	\$ 2.6959	\$ 1,613,514	
3	Second Tier - Next 11,000 Gals.	477,061	19	477,080	\$ 2.9681	\$ 1,416,029	
4	Third Tier - Over 15,000 Gals.	69,293		69,293	\$ 3.1949	\$ 221,385	
							\$ 3,250,928
5	B1M1B - 1"	163	1	165	\$ 35.79	\$ 70,672	\$ 70,672
	Commodity Usage						
6	First Tier - First 40,000 Gals.	20,768	209	20,977	\$ 2.9681	\$ 62,262	
7	Second Tier - Over 40,000 Gals.	3,242	-	3,242	\$ 3.1949	\$ 10,358	
							\$ 72,620
8	B1M1C - 1-1/2"	474	-	474	\$ 76.70	\$ 436,370	\$ 436,370
	Commodity Usage						
9	First Tier - First 100,000 Gals.	284,741	-	284,741	\$ 2.9681	\$ 845,144	
10	Second Tier - Over 100,000 Gals.	36,222	-	36,222	\$ 3.1949	\$ 115,726	
							\$ 960,870
11	B1M1D - 2"	140	-	140	\$ 112.50	\$ 189,045	\$ 189,045
	Commodity Usage						
12	First Tier - First 150,000 Gals.	91,660	-	91,660	\$ 2.9681	\$ 272,057	
13	Second Tier - Over 150,000 Gals.	15,244	-	15,244	\$ 3.1949	\$ 48,703	
							\$ 320,761
14	B1M1E - 3"	0	-	0.06	\$ 194.29	\$ 150	\$ 150
	Commodity Usage						
15	First Tier - First 275,000 Gals.	16	-	16	\$ 2.9681	\$ 47	
16	Second Tier - Over 275,000 Gals.		-	0	\$ 3.1949	\$ -	
							\$ 47
17	B1M1F - 4"	1	-	1	\$ 288.87	\$ 3,533	\$ 3,533
	Commodity Usage						
18	First Tier - First 400,000 Gals.	4,893	-	4,893	\$ 2.9681	\$ 14,523	
19	Second Tier - Over 400,000 Gals.	103,406	-	103,406	\$ 3.1949	\$ 330,373	
							\$ 344,896
20	Total Residential Customers	<u>15,009</u>	<u>2</u>	<u>15,011</u>			
21	Total Residential Usage	<u>1,705,021</u>	<u>255</u>	<u>1,705,276</u>			
22	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 8,047,573</u>
COMMERCIAL CUSTOMERS							
23	B2M1A - 5/8" & 3/4"	70	-	70	\$ 14.04	\$ 11,784	\$ 11,784
	Commodity Usage						
24	First Tier - First 15,000 Gals.	3,285	-	3,285	\$ 2.9681	\$ 9,750	
25	Second Tier - Over 15,000 Gals.	2,308	-	2,308	\$ 3.1949	\$ 7,374	
							\$ 17,124
26	B2M1B - 1"	85	(0.4)	85	\$ 35.79	\$ 36,379	\$ 36,379
	Commodity Usage						
27	First Tier - First 40,000 Gals.	16,952	(153)	16,799	\$ 2.9681	\$ 49,861	
28	Second Tier - Over 40,000 Gals.	14,350	-	14,350	\$ 3.1949	\$ 45,847	
							\$ 95,708
29	B2M1C - 1-1/2"	87	-	87	\$ 76.70	\$ 80,072	\$ 80,072
	Commodity Usage						
30	First Tier - First 100,000 Gals.	34,850	-	34,850	\$ 2.9681	\$ 103,439	
31	Second Tier - Over 100,000 Gals.	12,469	-	12,469	\$ 3.1949	\$ 39,837	
							\$ 143,276
32	B2M1D - 2"	132	(0.1)	132	\$ 112.50	\$ 178,658	\$ 178,658
	Commodity Usage						
33	First Tier - First 150,000 Gals.	98,774	(90)	98,684	\$ 2.9681	\$ 292,906	
34	Second Tier - Over 150,000 Gals.	44,612	-	44,612	\$ 3.1949	\$ 142,531	
							\$ 435,437
35	B2M1E - 3"	11	-	11	\$ 194.29	\$ 25,504	\$ 25,504
	Commodity Usage						
36	First Tier - First 275,000 Gals.	12,243	-	12,243	\$ 2.9681	\$ 36,339	
37	Second Tier - Over 275,000 Gals.	24,438	-	24,438	\$ 3.1949	\$ 78,077	

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTMTS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
38	B2M1F - 4"	1	-	1	\$ 288.87	\$ 3,466	\$ 3,466
	Commodity Usage						
39	First Tier - First 400,000 Gals.	4,800	-	4,800	\$ 2,9681	\$ 14,247	
40	Second Tier - Over 400,000 Gals.	7,385	-	7,385	\$ 3.1949	\$ 23,594	
							\$ 37,841
41	B2M1G - 6"	1	-	1	\$ 396.24	\$ 4,862	\$ 4,862
	Commodity Usage						
42	First Tier - First 550,000 Gals.	3,146	-	3,146	\$ 2,9681	\$ 9,338	
43	Second Tier - Over 550,000 Gals.	-	-	-	\$ 3.1949	\$ -	
							\$ 9,338
44	Total Commercial Customers	<u>387</u>	<u>(0.5)</u>	<u>387</u>			
45	Total Commercial Usage	<u>279,612</u>	<u>(243)</u>	<u>279,369</u>			
46	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 1,079,451</u>
	PRIVATE FIRE PROTECTION CUSTOMERS						
47	B6MO4 - 4"	18	-	18	\$ 65.93	\$ 14,242	
48	B6MO6 - 6"	42	-	42	\$ 98.92	\$ 49,947	
49	B6MO8 - 8"	10	-	10	\$ 131.89	\$ 15,932	
50	Commodity Usage	-	-	-	No Charge		
51	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						<u>\$ 80,120</u>
52	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						<u>\$ 9,207,144</u>
53	Unreconciled Difference vs. Billed Revenues						(21,397)
	Other Revenue						40,401
54	TOTAL REVENUE						<u>\$ 9,226,148</u>
55	PROPOSED REVENUE PER FILING						<u>\$ 9,226,148</u>
56	Difference						<u>\$ 0</u>

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 4,884,840	86.06%	\$ 8,597,662	86.33%	\$ 8,047,573	87.41%
2	OTHER	791,022	13.94%	1,361,070	13.67%	1,159,571	12.59%
3	TOTAL	<u>\$ 5,675,862</u>	<u>100.00%</u>	<u>\$ 9,958,732</u>	<u>100.00%</u>	<u>\$ 9,207,144</u>	<u>100.00%</u>
ALLOCATION RATIOS							
4	FIX REVENUE	\$ 2,386,032	42.04%	\$ 3,758,789	37.74%	\$ 3,518,297	38.21%
5	VARIABLE REVENUE	3,289,830	57.96%	6,199,943	62.26%	5,688,848	61.79%
6	TOTAL	<u>\$ 5,675,862</u>	<u>100.00%</u>	<u>\$ 9,958,732</u>	<u>100.00%</u>	<u>\$ 9,207,144</u>	<u>100.00%</u>
RESIDENTIAL (5/8" X 3/4") RATE DESIGN							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 9.57		\$ 15.00		\$ 14.04	
	COMMODITY CHARGE						
	PRESENT		PROPOSED				
8	First Tier - First 4,000 Gals.	First Tier - First 4,000 Gals.	\$ 1.3092	\$ 2.8802		\$ 2.6959	
9	Second Tier - Next 11,000 Gals.	Second Tier - Next 11,000 Gals.	\$ 1.7442	\$ 3.1710		\$ 2.9681	
10	Third Tier - Over 15,000 Gals.	Third Tier - Over 15,000 Gals.	\$ 2.0102	\$ 3.4133		\$ 3.1949	
RESIDENTIAL BILL COMPARISONS							
COST OF WATER SERVICE AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL		% OF AVERAGE MONTH USAGE OF 6,704 Gal.	GALLONS USED AT VARIOUS USAGE	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		25.00%	1,676	\$ 11.76	\$ 18.56	\$ 6.79	57.76%
12		50.00%	3,352	\$ 13.96	\$ 23.08	\$ 9.12	65.33%
13		100.00%	6,704	\$ 19.52	\$ 32.85	\$ 13.33	68.26%
14		150.00%	10,056	\$ 25.37	\$ 42.80	\$ 17.43	68.70%
15		200.00%	13,408	\$ 31.22	\$ 52.75	\$ 21.53	68.98%

TUBAC WATER DISTRICT

TABLE OF CONTENTS TO RLM SURREBUTTAL SCHEDULES

SCH. NO.	PAGE NO.	TITLE
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SURR RLM-2	1	SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS
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SURREBUTTAL TESTIMONY, RLM		ACRM REVENUE
SURREBUTTAL TESTIMONY, RLM		LABOR EXPENSE
SURREBUTTAL TESTIMONY, RLM		TANK MAINTENANCE
SURREBUTTAL TESTIMONY, RLM		CHEMICAL EXPENSE
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SURR RLM-8	1	PROPERTY TAX COMPUTATION
SURR RLM-9	1	TEST YEAR DEPRECIATION EXPENSE
SURR RLM-13	1	INCOME TAX EXPENSE
SURR RD-1	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

SURREBUTTAL REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 1,527,454	\$ 1,436,261
2	Adjusted Operating Income (Loss)	\$ (38,553)	\$ (61,618)
3	Current Rate Of Return (L2 / L1)	-2.52%	-4.29%
4	Required Operating Income (L5 X L1)	\$ 128,306	\$ 100,538
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 166,859	\$ 162,156
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6674	1.3078
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 278,214	\$ 212,074
9	Adjusted Test Year Revenue	\$ 426,898	\$ 426,900
10	Proposed Annual Revenue (L8 + L9)	\$ 705,112	\$ 638,974
11	Required Percentage Increase In Revenue (L8 / L9)	65.17%	49.68%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

SURREBUTTAL GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.2354			
3	Subtotal (L1 - L2)	0.7646			
4	Revenue Conversion Factor (L1 / L3)	1.3078			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	17.8110%			
9	Effective Federal Income Tax Rate (L7 X L8)	16.5699%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	23.5379%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 100,538			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	(61,618)			
13	Required Increase In Operating Income (L11 - L12)		\$ 162,156		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 17,597			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(32,321)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 49,918		
17	Total Required Increase In Revenue (L13 + L16)		\$ 212,074		
CALCULATION OF INCOME TAX:					
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			RUCO Recommended	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			\$ 638,974	
20	Synchronized Interest (Col. (C), L37)			520,838	
21	Arizona Taxable Income (L18 - L19 - L20)			43,375	
22	Arizona State Income Tax Rate			\$ 74,760	
23	Arizona Income Tax (L21 X L22)			6.9680%	
24	Fed. Taxable Income (L21 - L23)			\$ 69,551	\$ 5,209
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			4,888	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			-	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			-	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 12,388
31	Combined Federal And State Income Tax (L23 + L30)				\$ 17,597
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ (32,321)
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 49,918
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				17.81%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)		\$ 1,436,261		
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)		3.02%		
37	Synchronized Interest (L35 X L36)		\$ 43,375		

SURREBUTTAL RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 2,484,020</u>	<u>\$ 1,550</u>	<u>\$ 2,485,570</u>
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ (20,266)	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	17
7	NET CIAC (L6 + L7)	<u>\$ (178)</u>	<u>\$ -</u>	<u>\$ (178)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ (51,122)	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ (21,355)	\$ 22,354
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 1,527,454</u>	<u>\$ (91,193)</u>	<u>\$ 1,436,261</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SURREBUTTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 AIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJTD OCRB/FV/RB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	-	-	-	-	-	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 2,484,020</u>	<u>\$ 1,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,485,570</u>
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ -	\$ (20,266)	\$ -	\$ -	\$ -	\$ -	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	-	-	-	-	-	17
7	NET CIAC (L5 + L6)	<u>\$ (178)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (178)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ -	\$ -	\$ -	\$ -	\$ (51,122)	\$ -	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (21,355)	\$ 22,354
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	<u>\$ 1,527,454</u>	<u>\$ 1,550</u>	<u>\$ (20,266)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (51,122)</u>	<u>\$ (21,355)</u>	<u>\$ 1,436,261</u>

References:

Column (A): Company Schedule B-2
Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
Column (D): Adjustment No. 3 - Intentionally Left Blank
Column (E): Adjustment No. 4 - Intentionally Left Blank
Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
Column (G): Adjustment No. 6 - Allowance For Working Capital
Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

Arizona-Americian Water Company
Docket Nos. SW & W-01303A-08-0227
Test Year Ended December 31, 2007

Tubac Water District
Schedule SURR RLM-5
Page 1 of 2

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 1,445	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	1,445	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 1,598	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	1,598	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 40,665	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	19,310	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (21,355)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (21,355)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 131,623	\$ (1,183)	\$ 130,440	12.00	\$ 1,565,275
2	Purchased Water	-	-	-	86.87	-
3	Fuel & Power	25,631	-	25,631	32.42	830,957
4	Chemicals	2,190	-	2,190	28.47	62,357
5	Management Fees	87,180	(1,049)	86,131	(3.88)	(334,187)
6	Group Insurance	24,921	-	24,921	(4.64)	(115,747)
7	Pensions	28,546	-	28,546	45.00	1,284,592
8	Insurance Other Than Group	5,049	(3,011)	2,038	45.00	91,708
9	Customer Accounting	11,644	(6,595)	5,049	7.46	37,666
10	Rents	4,146	7,498	11,644	(10.68)	(124,379)
11	Depreciation & Amorization	81,679	(81,679)	-	-	-
12	Other Operating Expenses	77,593	(68)	77,525	30.00	2,325,746
	Taxes:					
13	Taxes Other Than Income	11,078	-	11,078	15.65	173,382
14	Property Taxes	26,350	3,882	30,232	212.50	6,424,317
15	Income Tax	52,871	(35,274)	17,597	42.04	739,782
16	Interest Expense	-	43,375	43,375	106.52	
17	Total Appropriate Operating Expenses	<u>\$ 570,501</u>	<u>\$ (74,104)</u>	<u>\$ 496,397</u>		<u>\$ 12,961,469</u>
18	Expense Lag	Line 17, Col. (E) / (C)	26.11			
19	Revenue Lag	Company Response To RUCO DR 8	40.31			
20	Net Lag	Line 19 - Line 18	14.20			
21	RUCO Adjusted Expenses	Col. (C), Line 17	<u>\$ 496,397</u>			
22	Cash Working Capital	Line 20 X Line 21 / 365 Days	<u>19,310</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	40,665			
24	Difference	Line 22 - Line 23	<u>\$ (21,355)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 24	<u>\$ (21,355)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

SURREBUTTAL OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
Revenues:						
1	Metered Water Revenues	\$ 423,061	\$ -	\$ 423,061	\$ 212,074	\$ 635,135
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	3,839	-	3,839	-	3,839
4	TOTAL OPERATING REVENUE	<u>\$ 426,900</u>	<u>\$ -</u>	<u>\$ 426,900</u>	<u>\$ 212,074</u>	<u>\$ 638,974</u>
Operating Expenses:						
5	Labor	\$ 131,623	\$ (1,183)	\$ 130,440	\$ -	\$ 130,440
6	Purchased Water	\$ -	-	-	-	-
7	Fuel & Power	25,631	-	25,631	-	25,631
8	Chemicals	2,190	-	2,190	-	2,190
9	Waste Disposal	(27)	27	-	-	-
10	Management Fees	87,180	(1,049)	86,131	-	86,131
11	Group Insurance	24,921	-	24,921	-	24,921
12	Pensions	28,546	-	28,546	-	28,546
13	Regulatory Expense	1,480	558	2,038	-	2,038
14	Insurance Other Than Group	5,049	-	5,049	-	5,049
15	Customer Accounting	11,644	-	11,644	-	11,644
16	Rents	4,146	-	4,146	-	4,146
17	General Office Expense	8,811	-	8,811	-	8,811
18	Miscellaneous	49,935	(93)	49,842	-	49,842
19	Maintenance Expense	17,394	1,478	18,872	-	18,872
20	Depreciation & Amortization	81,679	(412)	81,267	-	81,267
21	General Taxes - Property Taxes	26,350	3,882	30,232	-	30,232
22	General Taxes - Other	11,078	-	11,078	-	11,078
23	Income Tax	(52,178)	19,857	(32,321)	49,918	17,597
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 465,453</u>	<u>\$ 23,065</u>	<u>\$ 488,518</u>	<u>\$ 49,918</u>	<u>\$ 538,435</u>
26	OPERATING INCOME (LOSS)	<u>\$ (38,553)</u>	<u>\$ (23,065)</u>	<u>\$ (61,618)</u>	<u>\$ 162,156</u>	<u>\$ 100,538</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SURREBUTTAL SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUT'L ADJMT NO. 2	(C) SURREBUT'L TANK MAINTENANCE	(D) SURREBUT'L WATER TEST EXPENSE	(E) REVISED ADJMT NO. 1 PROPERTY TAX	(F) REVISED ADJMT NO. 2 DEPRECIAT'N & AMORTIZ'N	(G) ADJMT NO. 3 RATE CASE EXPENSE	(H) ADJMT NO. 4 WASTE DISPOSAL	(I) ADJMT NO. 5 AIP EXPENSE	(J) ADJMT NO. 6 MISC EXPENSES	(K) REVISED ADJMT NO. 7 INCOME TAX	(L) RUCO AS ADJTD
1	Revenues:												
2	Metered Water Revenues	\$ 423,061	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 423,061
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-	-	-
4	TOTAL OPERATING REV.	3,839	-	-	-	-	-	-	-	-	-	-	3,839
5	Operating Expenses:												
6	Labor	\$ 131,623	\$ (1,183)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130,440
7	Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-
8	Fuel & Power	25,631	-	-	-	-	-	-	-	-	-	-	25,631
9	Chemicals	2,190	-	-	-	-	-	-	-	-	-	-	2,190
10	Waste Disposal	(27)	-	-	-	-	-	-	27	-	-	-	-
11	Management Fees	87,180	-	-	-	-	-	-	-	(1,049)	-	-	86,131
12	Group Insurance	24,921	-	-	-	-	-	-	-	-	-	-	24,921
13	Pensions	28,546	-	-	-	-	-	-	-	-	-	-	28,546
14	Regulatory Expense	1,480	-	-	-	-	-	558	-	-	-	-	2,038
15	Insurance Other Than Group	5,049	-	-	-	-	-	-	-	-	-	-	5,049
16	Customer Accounting	11,644	-	-	-	-	-	-	-	-	-	-	11,644
17	Rent's	4,146	-	-	-	-	-	-	-	-	-	-	4,146
18	General Office Expense	8,811	-	-	1,575	-	-	-	-	-	(1,568)	-	8,811
19	Miscellaneous	49,935	-	-	-	-	-	-	-	-	-	-	49,935
20	Maintenance Expense	17,394	-	1,478	-	-	-	-	-	-	-	-	18,872
21	Depreciation & Amortization	81,679	-	-	-	-	(412)	-	-	-	-	-	81,267
22	General Taxes - Property Taxes	26,350	-	-	-	3,862	-	-	-	-	-	-	30,232
23	General Taxes - Other	11,078	-	-	-	-	-	-	-	-	-	-	11,078
24	Income Tax	(52,178)	-	-	-	-	-	-	-	-	-	19,857	(32,321)
25	Rounding	-	-	-	-	-	-	-	-	-	-	-	-
26	TOTAL OPERATING EXP.	\$ 485,493	\$ (1,183)	\$ 1,478	\$ 1,575	\$ 3,862	\$ (412)	\$ 558	\$ 27	\$ (1,049)	\$ (1,568)	\$ 19,857	\$ 483,519
	OPERATING INC. (LOSS)	\$ (33,553)											\$ (33,553)

SURREBUTTAL ADJUSTMENTS:
1 Labor Expense
2 Tank Maintenance
3 Water Testing Expense

REFERENCE:
Surrebuttal Testimony, RLM
Surrebuttal Testimony, RLM
Surrebuttal Testimony, RLM

ADJUSTMENTS:
1 Property Tax Computation
2 Depreciation And Amortization Expense
3 Rate Case Expense
4 Waste Disposal Expense
5 Annual Incentive Pay Program Expense
6 Miscellaneous Expenses
7 Income Tax

REFERENCE:
Testimony, RLM And Schedule RLM-8
Testimony, RLM And Schedule RLM-9
Testimony, RLM And Schedule RLM-10
Testimony, RLM
Testimony, RLM And Schedule RLM-11
Testimony, RLM And Schedule RLM-12
Testimony, RLM And Schedule RLM-13

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
	Annual Operating Revenues:			
1	Year 2005	Co. Sch. E-2	\$ 435,053	
2	Year 2006	Co. Sch. E-2	405,985	
3	RUCO Proposed Revenue	RUCO Sch. RLM-6	638,974	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 1,480,012	
5	Average Annual Operating Revenues	Line 4 / 3	493,337	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 986,674
ADD:				
	10% Of Construction Work In Progress ("CWIP"):			
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 479,596	
8	10% Of CWIP	Line 7 X 10%		\$ 47,960
SUBTRACT:				
	Transportation At Book Value:			
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,034,634
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
	FCV X Valuation Assessment Ratio X Property Tax Rates:			
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 237,966	
	Property Tax Rates:			
15	Primary Tax Rate	Company Workpapers	12.70%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	12.70%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 30,232
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		26,350
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 3,882
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 3,882

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 567	0.00%	\$ -
2	302000	Franchises	2,030	0.00%	-
3	303200	Land & Land Rights SS	20,414	0.00%	-
4	303300	Land & Land Rights P	50	0.00%	-
5	303400	Land & Land Rights WT	50	0.00%	-
6	303500	Land & Land Rights TD	422	0.00%	-
7	303600	Land & Land Rights AG	2,755	0.00%	-
8	304100	Struct & Imp SS	25,292	2.21%	559
9	304200	Struct & Imp P	14,608	2.21%	323
10	304300	Struct & Imp WT	-	2.21%	-
11	304400	Struct & Imp TD	156	2.21%	3
12	304600	Struct & Imp Offices	498	2.21%	11
13	304800	Struct & Imp Misc	-	0.00%	-
14	305000	Collect & Impounding	-	0.00%	-
15	307000	Wells & Springs	238,951	3.08%	7,360
16	310100	Power Generation Equip Other	4,832	4.24%	205
17	311200	Pump Equip Electric	281,110	4.24%	11,919
18	311300	Pump Equip Diesel	879	4.24%	37
19	311500	Pump Equip Other	403,823	4.24%	17,122
20	320100	WT Equip Non-Media	55,863	4.00%	2,235
21	330000	Dist Reservoirs & Standpipe	151,203	1.62%	2,449
22	331001	TD Mains Not Classified By Size	301,122	1.97%	5,932
23	331100	TD Mains 4in & Less	874,456	1.97%	17,227
24	331200	TD Mains 6in to 8in	390,384	1.97%	7,691
25	331300	TD Mains 10in to 16in	-	2.34%	-
26	333000	Services	401,618	2.45%	9,840
27	334100	Meters	99,053	2.42%	2,397
28	334200	Meter Installations	20,328	2.42%	492
29	335000	Hydrants	78,367	1.97%	1,544
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	0.00%	-
32	340100	Office Furniture & Equip	5,453	3.28%	179
33	340200	Comp & Periph Equip	1,336	10.83%	145
34	341100	Trans Equip Lt Duty Trks	17,166	25.00%	4,292
35	341200	Trans Equip Hvy Duty Trks	-	15.00%	-
36	342000	Stores Equipment	-	3.59%	-
37	343000	Tools, Shop, Garage Equip	14,442	3.59%	518
38	344000	Laboratory Equipment	-	0.00%	-
39	345000	Power Operated Equipment	-	4.64%	-
40	346100	Comm Equip Non-Telephone	1,932	5.03%	97
41	346300	Comm Equip Other	659	4.93%	32
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 3,409,819		\$ 92,608
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	12,387		3,026
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	-		-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 95,635
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			-
49		AMORTIZATION OF REGULATORY CIAC			(14,368)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				\$ 81,267
52	Company As Filed				81,679
53	Difference				\$ (412)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (412)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ (93,938)
	LESS:		
2	Arizona State Tax	Line 11	(9,568)
3	Interest Expense	Note (A) Line 20	43,375
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (127,745)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	17.81%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ (22,753)</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ (93,938)
	LESS:		
8	Interest Expense	Note (A) Line 20	43,375
9	State Taxable Income	Line 7 - Line 8	\$ (137,313)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ (9,568)</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (22,753)
13	State Income Tax Expense	Line 11	(9,568)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ (32,321)</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(52,178)
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 19,857</u>
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	<u>\$ 19,857</u>

NOTE (A):

Interest Synchronization:

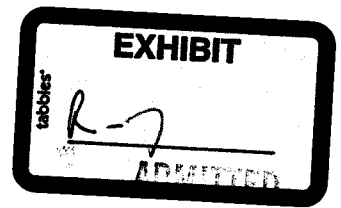
18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 1,436,261
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	<u>\$ 43,375</u>

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	F1M1A - 5/8" & 3/4"	461	1	462	\$ 29.44	\$ 163,219	\$ 163,219
	Commodity Usage						
2	First Tier - First 4,000 Gals.	17,836	118	17,954	\$ 3.4237	\$ 61,065	
3	Second Tier - Next 16,000 Gals.	32,438	-	32,438	\$ 4.3928	\$ 142,493	
4	Third Tier - Over 20,000 Gals.	14,857	-	14,857	\$ 4.4834	\$ 66,609	\$ 270,168
5	F1M1B - 1"	23	0.2	23	\$ 44.32	\$ 12,458	\$ 12,458
	Commodity Usage						
6	First Tier - First 35,000 Gals.	3,655	41	3,696	\$ 4.3928	\$ 16,057	
7	Second Tier - Over 35,000 Gals.	2,032	-	2,032	\$ 4.4834	\$ 9,110	
11	F1M1D - 2"	3	-	3	\$ 145.82	\$ 5,283	\$ 5,283
	Commodity Usage						
12	First Tier - First 150,000 Gals.	1,628	-	1,628	\$ 4.3928	\$ 7,151	
13	Second Tier - Over 150,000 Gals.	17	-	17	\$ 4.4834	\$ 76	\$ 7,228
14	F1M1E - 3"	1	-	1	\$ 172.99	\$ 2,071	\$ 2,071
	Commodity Usage						
15	First Tier - First 175,000 Gals.	10	-	10	\$ 4.3928	\$ 44	
16	Second Tier - Over 175,000 Gals.	0	-	0	\$ 4.4834	\$ -	
20	Total Residential Customers	<u>489</u>	<u>1</u>	<u>490</u>			\$ 44
21	Total Residential Usage	<u>72,474</u>	<u>158</u>	<u>72,632</u>			
22	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 485,636</u>
COMMERCIAL CUSTOMERS							
23	F2M1A - 5/8" & 3/4"	47	0	47	\$ 29.44	\$ 16,467	\$ 16,467
	Commodity Usage			0			
24	First Tier - First 20,000 Gals.	3,406	0	3,406	\$ 4.3928	\$ 14,962	
25	Second Tier - Over 20,000 Gals.	1,688	0	1,688	\$ 4.4834	\$ 7,568	
26	F2M1B - 1"	16	0	16	\$ 44.32	\$ 8,509	\$ 8,509
	Commodity Usage			0			
27	First Tier - First 35,000 Gals.	2,641	64	2,705	\$ 4.3928	\$ 11,600	
28	Second Tier - Over 35,000 Gals.	3,472	0	3,472	\$ 4.4834	\$ 15,566	
29	F2M1C - 1-1/2"	2	0	2	\$ 88.63	\$ 2,127	\$ 2,127
	Commodity Usage			0			
30	First Tier - First 85,000 Gals.	491	0	491	\$ 4.3928	\$ 2,157	
31	Second Tier - Over 85,000 Gals.		0	0	\$ 4.4834	\$ -	\$ 2,157
32	F2M1D - 2"	10	0	10	\$ 145.82	\$ 16,847	\$ 16,847
	Commodity Usage			0			
33	First Tier - First 150,000 Gals.	6,618	0	6,618	\$ 4.3928	\$ 29,071	
34	Second Tier - Over 150,000 Gals.	2,950	0	2,950	\$ 4.4834	\$ 13,226	
35	F2M1E - 3"	4	0	4	\$ 172.99	\$ 7,703	\$ 7,703
	Commodity Usage			0			
36	First Tier - First 175,000 Gals.	864	0	864	\$ 4.3928	\$ 3,795	
37	Second Tier - Over 175,000 Gals.	45	0	45	\$ 4.4834	\$ 202	
38	Total Commercial Customers	<u>78</u>	<u>0</u>	<u>78</u>			\$ 3,997
39	Total Commercial Usage	<u>22,175</u>	<u>64</u>	<u>22,239</u>			
40	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 149,800</u>
41	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						<u>\$ 635,436</u>
42	Unreconciled Difference vs. Billed Revenues						<u>(301)</u>
43	REVENUE PER BILL COUNT						<u>635,135</u>
44	Other Revenue						<u>3,839</u>
45	TOTAL REVENUE						<u>\$ 638,974</u>
46	PROPOSED REVENUE PER BOOK						<u>\$ 638,974</u>
	Difference						<u>\$ 0</u>

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A) PRESENT	(B) PRESENT	(C) COMPANY PROPOSED	(D) COMPANY PROPOSED	(E) RUCO PROPOSED	(F) RUCO PROPOSED
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 321,006	75.84%	\$ 536,183	76.43%	\$ 485,636	76.43%
2	OTHER	102,238	24.16%	165,391	23.57%	149,800	23.57%
3	TOTAL	\$ 423,244	100.00%	\$ 701,574	100.00%	\$ 635,436	100.00%
ALLOCATION RATIOS							
4	FIX REVENUE	\$ 156,585	37.00%	\$ 259,109	36.93%	\$ 234,683	36.93%
5	VARIABLE REVENUE	266,659	63.00%	442,465	63.07%	400,754	63.07%
6	TOTAL	423,244	100.00%	701,574	100.00%	635,436	100.00%
RESIDENTIAL (5/8" X 3/4") RATE DESIGN							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$	19.58	\$	32.50	\$	29.44
COMMODITY CHARGE							
		PRESENT	PROPOSED				
8	First Tier - First 4,000 Gals.	First Tier - First 4,000 Gals.	\$ 1.89	\$	3.78	\$	3.42
9	Second Tier - Next 16,000 Gals.	Second Tier - Next 16,000 Gals.	\$ 2.85	\$	4.85	\$	4.39
10	Third Tier - Over 20,000 Gals.	Third Tier - Over 20,000 Gals.	\$ 3.41	\$	4.95	\$	4.48
RESIDENTIAL BILL COMPARISONS							
COST OF WATER SERVICE							
AT DIFFERENT LEVELS OF USAGE							
WITH PERCENTAGE INCREASE IN BILL							
		MONTHLY CONSUMPTION	% OF AVERAGE MONTH USAGE OF 11,767 Gal.	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		2,942	25.00%	\$ 25.24	\$ 39.51	\$ 14.27	56.53%
12		5,384	50.00%	\$ 32.61	\$ 51.41	\$ 18.80	57.64%
13		11,767	100.00%	\$ 49.38	\$ 77.25	\$ 27.87	56.45%
14		17,651	150.00%	\$ 66.15	\$ 103.10	\$ 36.95	55.86%
15		23,534	200.00%	\$ 84.89	\$ 129.26	\$ 44.37	52.27%



**RUCO REVISED SURREBUTTAL SCHEDULES FOR
PARADISE VALLEY WATER DISTRICT**

TABLE OF CONTENTS TO RLM SURREBUTTAL SCHEDULES

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SURR RLM-7	1	SUMMARY OF OPERATING INCOME ADJUSTMENTS
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SURR RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 1 - PROPERTY TAX COMPUTATION
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SURR RD-1	1 & 2	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

SURREBUTTAL REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 40,864,986	\$ 36,953,344
2	Adjusted Operating Income (Loss)	\$ 1,552,498	\$ 2,029,771
3	Current Rate Of Return (L2 / L1)	3.80%	5.49%
4	Required Operating Income (L5 X L1)	\$ 3,432,659	\$ 2,586,734
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 1,880,161	\$ 556,963
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6496	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 3,101,550	\$ 907,090
9	Adjusted Test Year Revenue	\$ 7,848,732	\$ 8,220,585
10	Proposed Annual Revenue (L8 + L9)	\$ 10,950,282	\$ 9,127,675
11	Required Percentage Increase In Revenue (L8 / L9)	39.52%	11.03%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

SURREBUTTAL GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.3860			
3	Subtotal (L1 - L2)	0.6140			
4	Revenue Conversion Factor (L1 / L3)	1.6286			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	34.0000%			
9	Effective Federal Income Tax Rate (L7 X L8)	31.6309%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	38.5989%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 2,586,734			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	2,029,771			
13	Required Increase In Operating Income (L11 - L12)		\$ 556,963		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 924,560			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	574,434			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 350,126		
17	Total Required Increase In Revenue (L13 + L16)		\$ 907,090		
				RUCO	
				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 9,127,675	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			5,616,380	
20	Synchronized Interest (Col. (C), L37)			1,115,991	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 2,395,303	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 166,905
24	Fed. Taxable Income (L21 - L23)			\$ 2,228,399	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			6,250	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			8,500	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			91,650	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			643,756	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 757,656
31	Combined Federal And State Income Tax (L23 + L30)				\$ 924,560
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)				\$ 574,434
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)				\$ 350,126
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				34.00%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 36,953,344	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			\$ 1,115,991	

SURREBUTTAL RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 61,588,447	\$ (1,955,943)	\$ 59,632,504
2	Accumulated Depreciation	(12,099,985)	80,362	(12,019,623)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 49,488,462</u>	<u>\$ (1,875,581)</u>	<u>\$ 47,612,881</u>
				0
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ (322,588)	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	-	5,539,222
7	NET CIAC (L6 + L7)	<u>\$ (7,250,116)</u>	<u>\$ (322,588)</u>	<u>\$ (7,572,704)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ (1,083,637)	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ (629,836)	\$ 75,879
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 40,864,986</u>	<u>\$ (3,911,642)</u>	<u>\$ 36,953,344</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SURREBTUTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBTUTL ADJMT NO. 1 PUMP RETIREMENT	(C) ADJMT NO. 1 ACCUMULTD DEPRECTN	(D) ADJMT NO. 2 CIAC FOR CWIP	(E) REVISED ADJMT NO. 3 POST TY PLANT	(F) REVISED ADJMT NO. 4 ACCUMULTD DEPRECTN	(G) REVISED ADJMT NO. 5 GROSS PLANT	(H) ADJMT NO. 6 DEFERRED DEBITS	(I) ADJMT NO. 7 WORKING CAPITAL	(J) RUCO ADJTD OCB/FV/RB
1	Gross Utility Plant in Service	\$ 61,588,447	\$ (180,916)	\$ -	\$ -	\$ (1,775,027)	\$ -	\$ -	\$ -	\$ -	\$ 59,632,504
2	Accumulated Depreciation	(12,099,985)	120,802	(100,554)	-	-	60,114	-	-	-	(12,019,623)
3	Net Utility Plant in Service (Sum L1 & L3)	\$ 49,488,462	\$ (60,114)	\$ (100,554)	\$ -	\$ (1,775,027)	\$ 60,114	\$ -	\$ -	\$ -	\$ 47,612,881
4	Advances In Aid Of Const.	\$ (1,704,269)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,704,269)
5	Contribution In Aid Of Const.	\$ (12,789,338)	\$ -	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (13,111,926)
6	Accumulated Amortization Of CIAC	5,539,222	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	5,539,222
7	NET CIAC (L5 + L6)	\$ (7,250,116)	\$ -	\$ -	\$ (322,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,572,704)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Customer Meter Deposits	\$ (12,600)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (12,600)
11	Deferred Income Taxes And Credits	\$ (1,600,604)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,600,604)
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 1,238,398	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,083,637)	\$ -	\$ 154,761
14	Allowance For Working Capital	\$ 705,715	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (629,836)	\$ 75,879
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 40,864,986	\$ (60,114)	\$ (100,554)	\$ (322,588)	\$ (1,775,027)	\$ 60,114	\$ -	\$ (1,083,637)	\$ (629,836)	\$ 36,953,344

SURREBTUTAL ADJUSTMENTS:

Column (B): Surrebtutal Adjustment No. 1 - Adjust Test-Year Gross Plant & Accumulated Depreciation Per Company Rebuttal

References: Column (A): Company Schedule B-2

Column (C): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation Per Company Responses To RUCO Data Request 1.31

Column (D): Adjustment No. 2 - Reverse Company's Adjustment LUG-6 To Remove CIAC Associated With CWIP

Column (E): Adjustment No. 3 - Adjust Post Test-Year Plant Per Company Responses To RUCO Data Request 1.34

Column (F): Adjustment No. 4 - Adjust Test-Year Accumulated Depreciation First For Company Revised Dep. Rates Per Response To RUCO Data Request 1.07 & 1.08

And Second RUCO Computed Acc. Dep. Using A Mid-Month Convention.

Column (G): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request DH 4.3

Column (H): Adjustment No. 6 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1

Column (I): Adjustment No. 7 - Adjust Allowance For Working Capital To Reflect RUCO Operating Income Adjustments And The Disallowance Of Depreciation Expense In The Allowance.

Column (J): Sum Of Columns (A), (B), (C), (D), (E), (F), (G), (H) & (I)

SURREBUTTAL OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 7,832,113	\$ 371,853	\$ 8,203,966	\$ 907,090	\$ 9,111,056
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	16,619	-	16,619	-	16,619
4	TOTAL OPERATING REVENUE	<u>\$ 7,848,732</u>	<u>\$ 371,853</u>	<u>\$ 8,220,585</u>	<u>\$ 907,090</u>	<u>\$ 9,127,675</u>
	Operating Expenses:					
5	Labor	\$ 715,859	\$ (12,536)	\$ 703,323	\$ -	\$ 703,323
6	Purchased Water	-	-	-	-	-
7	Fuel & Power	693,068	-	693,068	-	693,068
8	Chemicals	236,982	(51,945)	185,037	-	185,037
9	Waste Disposal	(290)	290	-	-	-
10	Management Fees	923,778	(11,119)	912,659	-	912,659
11	Group Insurance	184,827	-	184,827	-	184,827
12	Pensions	130,911	-	130,911	-	130,911
13	Regulatory Expense	21,283	-	21,283	-	21,283
14	Insurance Other Than Group	45,435	-	45,435	-	45,435
15	Customer Accounting	123,742	-	123,742	-	123,742
16	Rents	21,467	-	21,467	-	21,467
17	General Office Expense	87,860	-	87,860	-	87,860
18	Miscellaneous	351,828	(10,096)	341,732	-	341,732
19	Maintenance Expense	578,292	(367,350)	210,942	-	210,942
20	Depreciation & Amortization	1,615,824	(22,302)	1,593,522	-	1,593,522
21	General Taxes - Property Taxes	268,996	23,604	292,600	-	292,600
22	General Taxes - Other	67,972	-	67,972	-	67,972
23	Income Tax	228,400	346,034	574,434	350,126	924,560
24	Rounding	1	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 6,296,235</u>	<u>\$ (105,420)</u>	<u>\$ 6,190,814</u>	<u>\$ 350,126</u>	<u>\$ 6,540,941</u>
26	OPERATING INCOME (LOSS)	<u>\$ 1,552,497</u>	<u>\$ 477,273</u>	<u>\$ 2,029,771</u>	<u>\$ 556,963</u>	<u>\$ 2,586,734</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SURREBITTAL SUMMARY OF OPERATING INCOME ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBITTAL ADJMT NO. 1	(C) SURREBITTAL ADJMT NO. 2	(D) SURREBITTAL ADJMT NO. 3	(D) SURREBITTAL ADJMT NO. 5	(E) REVISED ADJMT NO. 1	(F) REVISED ADJMT NO. 2	(G) ADJMT NO. 3	(H) ADJMT NO. 4	(I) ADJMT NO. 5	(J) ADJMT NO. 6	(K) REVISED ADJMT NO. 7	(L) RUCO AS ADJTD
			ACRM REVENUE	LABOR	TANK MAINTENANCE	WATER TEST EXPENSE	PROPERTY TAX	DEPRECIATION & AMORTIZATION	WASTE DISPOSAL	CHEMICAL EXPENSE	AIP EXPENSE	MISC EXPENSES	INCOME TAX	
1	Revenues:													
2	Metered Water Revenues	\$ 7,832,113	\$ 371,853	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,203,966
3	Unmetered Water Revenues	16,619	-	-	-	-	-	-	-	-	-	-	-	16,619
4	TOTAL OPERATING REV.	\$ 7,848,732	\$ 371,853	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,220,585
5	Operating Expenses:													
6	Labor	\$ 715,959	\$ -	\$ (12,536)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 703,323
7	Purchased Water	693,068	-	-	-	-	-	-	-	-	-	-	-	693,068
8	Fuel & Power	236,982	-	-	-	-	-	-	-	(51,945)	-	-	-	185,037
9	Chemicals	(290)	-	-	-	-	-	-	290	-	-	-	-	-
10	Waste Disposal	923,778	-	-	-	-	-	-	-	-	(11,119)	-	-	912,659
11	Management Fees	184,827	-	-	-	-	-	-	-	-	-	-	-	184,827
12	Group Insurance	130,911	-	-	-	-	-	-	-	-	-	-	-	130,911
13	Pensions	21,283	-	-	-	-	-	-	-	-	-	-	-	21,283
14	Regulatory Expense	45,435	-	-	-	-	-	-	-	-	-	-	-	45,435
15	Insurance Other Than Group	123,742	-	-	-	-	-	-	-	-	-	-	-	123,742
16	Customer Accounting	21,487	-	-	-	-	-	-	-	-	-	-	-	21,487
17	Rents	87,860	-	-	-	-	-	-	-	-	-	-	-	87,860
18	General Office Expense	351,528	-	-	(367,360)	(5,293)	-	-	-	-	-	(3,803)	-	341,732
19	Miscellaneous	576,292	-	-	-	-	-	-	-	-	-	-	-	576,292
20	Depreciation & Amortization	1,615,824	-	-	-	-	-	(22,302)	-	-	-	-	-	1,593,522
21	General Taxes - Property Taxes	288,996	-	-	-	-	23,604	-	-	-	-	-	-	282,600
22	General Taxes - Other	67,972	-	-	-	-	-	-	-	-	-	-	-	67,972
23	Income Tax	228,400	-	-	-	-	-	-	-	-	-	-	346,034	574,434
24	Rounding	1	-	-	-	-	-	-	-	-	-	-	-	-
25	TOTAL OPERATING EXP.	\$ 6,236,235	\$ -	\$ (12,536)	\$ (367,360)	\$ (5,293)	\$ 23,604	\$ (22,302)	\$ 290	\$ (51,945)	\$ (11,119)	\$ (3,803)	\$ 346,034	\$ 6,190,814
26	OPERATING INC. (LOSS)	\$ 1,552,497												\$ 2,029,771

SURREBITTAL ADJUSTMENTS:

- 1 ACRM Revenue
- 2 Labor Expense
- 3 Tank Maintenance
- 5 Water Testing Expense

REFERENCE:

- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM
- Surrebuttal Testimony, RLM

ADJUSTMENTS:

- 1 Property Tax Computation
- 2 Depreciation And Amortization Expense
- 3 Waste Disposal Expense
- 4 Chemical Expense
- 5 Annual Incentive Pay Program Expense
- 6 Labor Expense
- 7 Miscellaneous Expenses
- 8 Income Tax

REFERENCE:

- Testimony, RLM And Schedule RLM-8
- Testimony, RLM And Schedule RLM-9
- Testimony, RLM
- Testimony, RLM
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	\$ 8,220,585	
2	Adjusted Revenues In Year Ended December 2007	Sch. RLM-6, Col (C), Ln 4	8,220,585	
3	Proposed Revenues	Sch. RLM-6, Col (D), Ln 4	9,127,675	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 25,568,845	
5	Average Annual Operating Revenues	Line 4 / 3	8,522,948	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 17,045,896
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 1,438,015	
8	10% Of CWIP	Line 7 X 10%		\$ 143,802
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 17,189,698
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 3,953,631	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	7.40%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	7.40%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 292,600
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		268,996
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 23,604
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 23,604

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 15,350	0.00%	\$ -
2	302000	Franchises	-	0.00%	-
3	339600	Miscellaneous Intangibles	10,520	0.00%	-
4	303200	Land & Land Rights SS	-	0.00%	-
5	303300	Land & Land Rights P	-	0.00%	-
6	303500	Land & Land Rights TD	8,324	0.00%	-
7	303600	Land & Land Rights AG	-	0.00%	-
8	304100	Struct & Imp SS	(489,625)	2.50%	(12,241)
9	304200	Struct & Imp P	-	3.99%	-
10	304300	Struct & Imp WT	20,468,880	2.00%	409,378
11	304400	Struct & Imp TD	23,764	1.50%	356
12	304500	Struct & Imp AG	5,731	3.99%	229
13	304600	Struct & Imp Offices	-	0.00%	-
14	304700	Struct & Imp Store, Shop, & Garage	3,036	3.99%	121
15	304800	Struct & Imp Misc	(8,633)	3.99%	(344)
16	305000	Collect & Impounding	-	0.00%	-
17	307000	Wells & Springs	1,814,629	2.48%	45,003
18	310100	Power Generation Equip Other	554,631	4.39%	24,348
19	311200	Pump Equip Electric	3,487,801	4.39%	153,114
20	311300	Pump Equip Diesel	190	4.39%	8
21	311500	Pump Equip Other	-	0.00%	-
22	320100	WT Equip Non-Media	9,826,154	7.06%	693,726
23	309000	Supply Mains	-	1.11%	-
24	330000	Dist Reservoirs & Standpipe	2,115,945	3.15%	66,652
25	331001	TD Mains Not Classified By Size	2,395,291	0.00%	-
26	331100	TD Mains 4in & Less	114,959	4.17%	4,794
27	331200	TD Mains 6in to 8in	5,046,297	2.52%	127,167
28	331300	TD Mains 10in to 16in	9,132,419	2.34%	213,699
29	332000	Fire Mains	14,058	1.53%	215
30	333000	Services	2,724,759	4.72%	128,609
31	334100	Meters	350,869	2.51%	8,807
32	334200	Meter Installations	148,305	1.51%	2,239
33	335000	Hydrants	1,054,321	2.10%	22,141
34	339100	Other P/E Intangible	-	0.00%	-
35	339500	Other P/E TD	-	0.00%	-
36	340100	Office Furniture & Equip	58,812	4.04%	2,376
37	340200	Comp & Periph Equip	38,291	10.00%	3,829
38	340300	Computer Software	14,710	25.00%	3,678
39	340500	Other Office Equipment	674	7.13%	48
40	341100	Trans Equip Lt Duty Trks	(0)	22.00%	(0)
41	341300	Trans Equip Autos	3,541	7.80%	276
42	341400	Trans Equip Other	27,905	0.93%	260
43	343000	Tools, Shop, Garage Equip	111,116	3.61%	4,011
44	344000	Laboratory Equipment	17,620	10.00%	1,762
45	345000	Power Operated Equipment	96,131	4.64%	4,460
46	346100	Comm Equip Non-Telephone	386,889	9.76%	37,760
47	346300	Comm Equip Other	58,841	4.93%	2,901
48	TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 59,632,504		\$ 1,949,382
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	120,225		26,819
	TOTAL	DEPRECIATION EXPENSE ON UPIS			1,976,201
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS			-
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORTIZATION OF REGULATORY ASSETS			72
48		AMORTIZATION OF CONTRIBUTIONS			(382,752)
49		AMORTIZATION OF REGULATORY CIAC			-
50		Rounding			1
51	TOTAL DEPRECIATION EXPENSE				\$ 1,593,522
52	Company As Filed				1,615,824
53	Difference				\$ (22,302)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (22,302)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ 2,604,205
	LESS:		
2	Arizona State Tax	Line 11	103,699
3	Interest Expense	Note (A) Line 20	1,115,991
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ 1,384,515
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 470,735
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 2,604,205
	LESS:		
8	Interest Expense	Note (A) Line 20	1,115,991
9	State Taxable Income	Line 7 - Line 8	\$ 1,488,214
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 103,699
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 470,735
13	State Income Tax Expense	Line 11	103,699
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 574,434
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		228,400
16	Total Income Tax Adjustment	Line 14 - Line 15	\$ 346,034
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	\$ 346,034

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 36,953,344
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	\$ 1,115,991

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

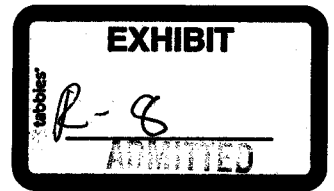
LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	P1M1A - 5/8"	2,258	-5	2,253	\$ 28.50	\$ 770,453	
2	P1M1A - 3/4"	32	-0.08	32	\$ 29.49	11,334	
3	P1M1A - 1"	1,926	-4	1,921	\$ 47.54	1,096,158	
4	P1M1A - 1-1/2"	64	0	64	\$ 95.99	73,403	
5	P1M1A - 2"	138	0	138	\$ 152.98	253,500	
6	P1M1B - MMWC 5/8"	2	0	2	\$ 28.50	683	
7	P1M1B - MMWC 1"	43	0	43	\$ 47.54	24,617	
8	P1M1B - MMWC 1-1/2"	20	0	20	\$ 95.99	23,079	
9	P1M1B - MMWC 2"	11	0	11	\$ 152.98	20,208	
10	Total Customers	<u>4,494</u>	<u>-9</u>	<u>4,484</u>			\$ 2,273,436
Commodity Usage							
11	First Tier - First 25,000 Gals.	892,767	-2,550	890,216	\$ 1.3112	\$ 1,167,281	
12	Second Tier - Next 55,000 Gals.	796,125	-1,685	794,440	\$ 2.2730	1,805,725	
13	Third Tier - Over 80,000 Gals.	548,980	-253	548,727	\$ 2.8458	1,561,552	
14	Total Usage	<u>2,237,872</u>	<u>-4,489</u>	<u>2,233,383</u>			\$ 4,534,558
15	TOTAL RESIDENTIAL CUSTOMERS REVENUE						<u>\$ 6,807,993</u>
COMMERCIAL CUSTOMERS							
16	P2M1A - 5/8"	67	-0.42	67	\$ 28.50	\$ 22,854	
17	P2M1A - 3/4"	1	0	1	\$ 29.49	354	
18	P2M1A - 1"	51	-0.33	51	\$ 47.54	29,004	
19	P2M1A - 1-1/2"	25	-0.17	24	\$ 95.99	28,060	
20	P2M1A - 2"	123	-1	123	\$ 152.98	225,001	
21	P2M1A - 3"	25	0	25	\$ 283.45	83,495	
22	P2M1A - 4"	1	0	1	\$ 471.68	5,660	
23	P2M1A - 6"	4	0	4	\$ 944.83	45,352	
24	Sub-Total Customers	<u>297</u>	<u>-2</u>	<u>295</u>			\$ 439,780
Commodity Usage							
25	First Tier	397,389	-2,917	394,472	\$ 2.2730	\$ 896,616	
26	Second Tier	173,333	0	173,333	\$ 3.0328	525,692	
27	Sub-Total Usage	<u>570,722</u>	<u>-2,917</u>	<u>567,805</u>			\$ 1,422,308
28	P2M1T - TURF 3"	1	0	1	\$ 283.45	2,304	
29	P2M1T - TURF 4"	0.33	0	0.33	\$ 471.68	1,887	
30	P2PVC - CC 6"	1	0	1	\$ 803.12	10,208	
31	Sub-Total Customers	<u>2</u>	<u>0</u>	<u>2</u>			\$ 14,399
Commodity Usage							
32	P2M1T - TURF 3" & 4"	39,969	0	39,969	\$ 1.9168	\$ 76,614	
33	P2PVC - CC 6"	185,447	0	185,447	\$ 1.8609	345,107	
34	Sub-Total Usage	<u>225,416</u>	<u>0</u>	<u>225,416</u>			\$ 421,721
35	Total Customers	<u>299</u>					
36	First Tier	622,805					
37	Second Tier	173,333					
38		<u>796,138</u>					
39	TOTAL COMMERCIAL CUSTOMERS REVENUE						<u>\$ 2,298,208</u>

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
OPA CUSTOMERS							
40	P4MIT - 3	<u>1</u>	0	<u>1</u>	\$ 283.45	\$3,401	
	Commodity Usage						
41	All Usage	<u>11,050</u>	0	<u>11,050</u>	\$ 1.9168	\$ 21,181	
42	Total Usage	<u>11,050</u>	<u>0</u>	<u>11,050</u>			\$ 24,582
43	TOTAL OPA CUSTOMERS REVENUE						<u>\$ 24,582</u>
SALE FOR RESALE CUSTOMERS							
44	P5M1A - OWU/OPA 5/8"	5	0	5	\$ 28.50	\$ 1,710	
45	P5M1A - OWU/OPA 1"	10	0	10	\$ 47.54	5,780	
46	P5M1A - OWU/OPA 2"	<u>5</u>	<u>0</u>	<u>5</u>	\$ 152.98	9,179	
47	Total Customers	<u>20</u>		<u>20</u>			\$ 16,668
	Commodity Usage						
48	All Usage	<u>7,855</u>	0	<u>7,855</u>	\$ 2.8822	\$ 22,640	
49	Total Usage	<u>7,855</u>	<u>0</u>	<u>7,855</u>			\$ 22,640
50	TOTAL SALE FOR RESALE CUSTOMERS REVENUE						<u>\$ 39,308</u>
PRIVATE FIRE PROTECTION CUSTOMERS							
51	P6M1A	69	0	<u>69</u>	\$ 25.45	\$ 21,101.56	
52	Commodity Usage	-	0	<u>-</u>	No Charge		
53	TOTAL PRIVATE FIRE PROTECTION CUSTOMERS REVENUE						<u>\$ 21,102</u>
54	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						<u>\$ 9,191,193</u>
55	Unreconciled Difference vs. Billed Revenues						(80,137)
56	REVENUE PER BILL COUNT						<u>9,111,056</u>
57	Other Water Revenues						16,619
58	TOTAL REVENUE						<u>9,127,675</u>
59	PROPOSED REVENUE						<u>\$ 9,127,675</u>
60	Difference						\$ 0

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 6,138,486	77.75%	\$ 8,672,282	78.74%	\$ 6,962,424	74.07%
2	OTHER	\$ 1,756,288	22.25%	\$ 2,341,517	21.26%	\$ 2,437,259	25.93%
3	TOTAL	\$ 7,894,774	100.00%	\$ 11,013,799	100.00%	\$ 9,399,683	100.00%
ALLOCATION RATIOS							
4	FIX REVENUE	2,016,921	44.63%	\$ 2,720,360	24.70%	\$ 2,831,592	30.12%
5	VARIABLE REVENUE	2,502,680	55.37%	\$ 8,293,438	75.30%	\$ 6,568,091	69.88%
6	TOTAL	4,519,601	100.00%	\$ 11,013,799	100.00%	\$ 9,399,683	100.00%
RESIDENTIAL (5/8" X 3/4") RATE DESIGN							
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 24.34		\$ 28.00		\$ 28.50	
	COMMODITY CHARGE						
	PRESENT		PROPOSED				
8	First Tier - First 25,000 Gals.	\$ 1,2134	First Tier - First 25,000 Gals.	\$ 1,2883		\$ 1,3112	
9	Second Tier - Next 55,000 Gals.	\$ 2,1034	Second Tier - Next 55,000 Gals.	\$ 2,2332		\$ 2,2730	
10	Third Tier - Over 80,000 Gals.	\$ 2,6334	Third Tier - Over 80,000 Gals.	\$ 2,7960		\$ 2,8458	
RESIDENTIAL BILL COMPARISONS							
COST OF WATER SERVICE							
AT DIFFERENT LEVELS OF USAGE							
WITH PERCENTAGE INCREASE IN BILL							
		MONTHLY CONSUMPTION	% OF AVERAGE MONTH USAGE OF 20,493 Gal.	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		5,123	25.00%	\$ 30.56	\$ 35.22	\$ 4.66	15.25%
12		10,472	50.00%	\$ 37.05	\$ 42.23	\$ 5.18	13.99%
13		20,493	100.00%	\$ 49.21	\$ 55.37	\$ 6.16	12.53%
14		30,740	150.00%	\$ 69.79	\$ 74.33	\$ 4.54	6.50%
15		40,986	200.00%	\$ 96.77	\$ 97.61	\$ 0.84	0.87%



RUCO REVISED SURREBUTTAL SCHEDULES FOR

TUBAC WATER DISTRICT

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SURR RLM-8	1	PROPERTY TAX COMPUTATION
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SURR RD-1	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
SURR RD-2	1	TYPICAL RESIDENTIAL BILL ANALYSIS

SURREBUTTAL REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB COST	(B) RUCO OCRB/FVRB COST
1	Original Cost Rate Base	\$ 1,527,454	\$ 1,423,707
2	Adjusted Operating Income (Loss)	\$ (38,553)	\$ (62,800)
3	Current Rate Of Return (L2 / L1)	-2.52%	-4.41%
4	Required Operating Income (L5 X L1)	\$ 128,306	\$ 99,660
5	Required Rate Of Return On Fair Value Rate Base	8.40%	7.00%
6	Operating Income Deficiency (L4 - L2)	\$ 166,859	\$ 162,459
7	Gross Revenue Conversion Factor (RLM-1, Page 2)	1.6674	1.3067
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 278,214	\$ 212,291
9	Adjusted Test Year Revenue	\$ 426,898	\$ 426,900
10	Proposed Annual Revenue (L8 + L9)	\$ 705,112	\$ 639,191
11	Required Percentage Increase In Revenue (L8 / L9)	65.17%	49.73%
12	Rate Of Return On Common Equity	11.91%	8.88%

References:

Column (A): Company Schedules A-1 and C-1
Column (B): RUCO Schedule RLM-1 Page 2, RLM-6, And RLM-16

SURREBUTTAL GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:					
1	Revenue	1.0000			
2	Combined Federal And State Tax Rate (L10)	0.2347			
3	Subtotal (L1 - L2)	0.7653			
4	Revenue Conversion Factor (L1 / L3)	1.3067			
CALCULATION OF EFFECTIVE TAX RATE:					
5	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
6	Arizona State Income Tax Rate	6.9680%			
7	Federal Taxable Income (L5 - L6)	93.0320%			
8	Applicable Federal Income Tax Rate (Col. (D), L34)	17.7415%			
9	Effective Federal Income Tax Rate (L7 X L8)	16.5053%			
10	Combined Federal And State Income Tax Rate (L6 + L9)	23.4733%			
11	Required Operating Income (Sch. RLM-1, Pg 1, C (B), L4)	\$ 99,660			
12	Adj'd T.Y. Oper'g Inc. (Loss) (Sch. RLM-1, Pg 1, C (B), L2)	(62,800)			
13	Required Increase In Operating Income (L11 - L12)		\$ 162,459		
14	Income Taxes On Recommended Revenue (Col. (D), L31)	\$ 17,381			
15	Income Taxes On Test Year Revenue (Col. (D), L32)	(32,451)			
16	Required Increase In Revenue To Provide For Income Taxes (L14 - L15)		\$ 49,832		
17	Total Required Increase In Revenue (L13 + L16)		<u>\$ 212,291</u>		
				RUCO	
CALCULATION OF INCOME TAX:				Recommended	
18	Revenue (Sch. RLM-1, Pg 1, Col. (B), L10)			\$ 639,191	
19	Operating Expense Excluding Income Tax (RLM-6, Col. (E), L25 - L23)			522,151	
20	Synchronized Interest (Col. (C), L37)			42,996	
21	Arizona Taxable Income (L18 - L19 - L20)			\$ 74,044	
22	Arizona State Income Tax Rate			6.9680%	
23	Arizona Income Tax (L21 X L22)				\$ 5,159
24	Fed. Taxable Income (L21 - L23)			\$ 68,885	
25	Fed. Tax On 1st Inc. Bracket (\$1 - \$50,000) @ 15%			\$ 7,500	
26	Fed. Tax On 2nd Inc. Bracket (\$50,001 - \$75,000) @ 25%			4,721	
27	Fed. Tax On 3rd Inc. Bracket (\$75,001 - \$100,000) @ 34%			-	
28	Fed. Tax On 4th Inc. Bracket (\$100,001 - \$335,000) @ 39%			-	
29	Fed. Tax On 5th Inc. Bracket (\$335,001 - \$10M) @ 34%			-	
30	Total Federal Income Tax (L25 + L26 + L27 + L28 + L29)				\$ 12,221
31	Combined Federal And State Income Tax (L23 + L30)				<u>\$ 17,381</u>
32	Test Year Combined Income Tax, RUCO As Adjusted (RLM-6, Col. (C), L23)			\$ (32,451)	
33	RUCO Adjustment (L31 - L32) (See RLM-6, Col. (D), L23)			<u>\$ 49,832</u>	
34	Applicable Federal Income Tax Rate (Col. (D), L30 / Col. (C), L24)				17.74%
CALCULATION OF INTEREST SYNCHRONIZATION:					
35	Rate Base (Sch. RLM-2, Col. (H), L15)			\$ 1,423,707	
36	Weighted Avg. Cost Of Debt (Sch. RLM-16, Col. (F), L1)			3.02%	
37	Synchronized Interest (L35 X L36)			<u>\$ 42,996</u>	

SURREBUTTAL RATE BASE - ORIGINAL COST

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB/FVRB	(B) RUCO OCRB/FVRB ADJUSTMENTS	(C) RUCO ADJ'TED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	<u>\$ 2,484,020</u>	<u>\$ 1,550</u>	<u>\$ 2,485,570</u>
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ (20,266)	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	17
7	NET CIAC (L6 + L7)	<u>\$ (178)</u>	<u>\$ -</u>	<u>\$ (178)</u>
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ (51,122)	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ (33,908)	\$ 9,800
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 4, 5, & 8 Thru 17)	<u>\$ 1,527,454</u>	<u>\$ (103,747)</u>	<u>\$ 1,423,707</u>

References:

Column (A): Company Schedule B-1
Column (B): Schedule RLM-2
Column (C): Column (A) + Column (B)

SURREBUTTAL SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED OCRB	(B) ADJMT NO. 1 ACCUMULT'D DEPRECT'N	(C) ADJMT NO. 2 AIAC FOR CWIP	(D) ADJMT NO. 3	(E) ADJMT NO. 4	(F) ADJMT NO. 5 DEFERRED DEBITS	(G) ADJMT NO. 6 WORKING CAPITAL	(H) RUCO ADJUSTED OCRB/FVRB
1	Gross Utility Plant In Service	\$ 3,423,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,423,384
2	Accumulated Depreciation	(939,364)	1,550	-	-	-	-	-	(937,814)
3	Net Utility Plant In Service (Sum L1 & L3)	\$ 2,484,020	\$ 1,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,485,570
4	Advances In Aid Of Const.	\$ (1,042,125)	\$ -	\$ (20,266)	\$ -	\$ -	\$ -	\$ -	\$ (1,062,391)
5	Contribution In Aid Of Const.	\$ (195)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (195)
6	Accumulated Amortization Of CIAC	17	-	-	-	-	-	-	17
7	NET CIAC (L5 + L6)	\$ (178)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (178)
8	Imputed Regulatory Advances	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	Imputed Regulatory Contributions	\$ (58,023)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (58,023)
10	Customer Meter Deposits	\$ (540)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (540)
11	Deferred Income Taxes And Credits	\$ 46,088	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,088
12	Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Deferred Debits	\$ 54,503	\$ -	\$ -	\$ -	\$ -	\$ (51,122)	\$ -	\$ 3,381
14	Allowance For Working Capital	\$ 43,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (33,908)	\$ 9,800
15	Utility Plant Acquisition Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Rounding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
17	TOTAL RATE BASE (Sum L's 3, 4, & 7 Thru 16)	\$ 1,527,454	\$ 1,550	\$ (20,266)	\$ -	\$ -	\$ (51,122)	\$ (33,908)	\$ 1,423,707

References:

- Column (A): Company Schedule B-2
- Column (B): Adjustment No. 1 - Adjust Test-Year Accumulated Depreciation (See RLM-3, Pages 1 Thru 7, And Testimony, RLM)
- Column (C): Adjustment No. 2 - Reverse Company's Adjustment To Remove CIAC Associated With CWIP
- Column (D): Adjustment No. 3 - Intentionally Left Blank
- Column (E): Adjustment No. 4 - Intentionally Left Blank
- Column (F): Adjustment No. 5 - Adjust Post Test-Year Plant Per Company Responses To Staff Data Request GWB 17.1
- Column (G): Adjustment No. 6 - Allowance For Working Capital
- Column (H): Sum Of Columns (A), (B), (C), (D), (E), (F) & (G)

**EXPLANATION OF RATE BASE ADJUSTMENT NO. 6
ALLOWANCE FOR WORKING CAPITAL**

LINE NO.	DESCRIPTION	(A)	(B)
		AMOUNT	REFERENCE
1	Materials And Supplies As Per Company	\$ 1,445	Company Schedule B-5, PG. 1
2	Materials And Supplies As Per RUCO	1,445	Company Schedule B-5, PG. 1
3	Adjustment	\$ -	Line 2 - Line 1
4	Prepayment As Per Company	\$ 1,598	Company Schedule B-5, PG. 1
5	Prepayment As Per RUCO	1,598	Company Schedule B-5, PG. 1
6	Adjustment	\$ -	Line 5 - Line 4
7	Cash Working Capital As Per Company	\$ 40,665	Company Schedule B-5, PG. 1
8	Cash Working Capital As Per RUCO	6,757	RUCO Schedule RLM-5, Page 2
9	Adjustment	\$ (33,908)	Line 8 - Line 7
10	TOTAL ADJUSTMENT (See RLM-2, Column (G))	<u>\$ (33,908)</u>	Sum Lines 3, 6 & 9

EXPLANATION OF RATE BASE ADJUSTMENT NO. 6 - CONT'D
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Appropriate Operating Expenses:					
1	Labor	\$ 131,623	\$ (1,183)	\$ 130,440	12.00	\$ 1,565,275
2	Purchased Water	-	-	-	86.87	-
3	Fuel & Power	25,631	-	25,631	32.42	830,957
4	Chemicals	2,190	-	2,190	28.47	62,357
5	Management Fees	87,180	(1,049)	86,131	(3.88)	(334,187)
6	Group Insurance	24,921	-	24,921	(4.64)	(115,747)
7	Pensions	28,546	-	28,546	45.00	1,284,592
8	Insurance Other Than Group	5,049	(3,011)	2,038	45.00	91,708
9	Customer Accounting	11,644	(6,595)	5,049	7.46	37,666
10	Rents	4,146	7,498	11,644	(10.68)	(124,379)
11	Depreciation & Amorization	81,679	(81,679)	-	-	-
12	Other Operating Expenses	77,593	1,240	78,833	30.00	2,364,991
	Taxes:					
13	Taxes Other Than Income	11,078	-	11,078	15.65	173,382
14	Property Taxes	26,350	3,887	30,236	212.50	6,425,216
15	Income Tax	52,871	(35,490)	17,381	42.04	730,683
16	Interest Expense	-	42,996	42,996	106.52	4,579,929
17	Total Appropriate Operating Expenses	<u>\$ 570,501</u>	<u>\$ (73,387)</u>	<u>\$ 497,114</u>		<u>\$ 17,572,443</u>
18	Expense Lag	Line 17, Col. (E) / (C)	35.35			
19	Revenue Lag	Company Response To RUCO DR 8	40.31			
20	Net Lag	Line 19 - Line 18	4.96			
21	RUCO Adjusted Expenses	Col. (C), Line 17	<u>\$ 497,114</u>			
22	Cash Working Capital	Line 20 X Line 21 / 365 Days	<u>6,757</u>			
23	Company As Filed	Co. Schedule B-6, Page 1	40,665			
24	Difference	Line 22 - Line 23	<u>\$ (33,908)</u>			
25	ADJUSTMENT (See RLM-5, Page 1, L 9)	Line 24	<u>\$ (33,908)</u>			

References:

Column (A): - Company Schedule B-6
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (A) + (B)
Column (D): - Company Schedule B-6
Column (E): Column (C) X Column (D)

SURREBUTTAL OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJMT'S	(C) RUCO TEST YEAR AS ADJ'TED	(D) RUCO PROP'D CHANGES	(E) RUCO AS RECOMM'D
	Revenues:					
1	Metered Water Revenues	\$ 423,061	\$ -	\$ 423,061	\$ 212,291	\$ 635,352
2	Unmetered Water Revenues	-	-	-	-	-
3	Other Water Revenues	3,839	-	3,839	-	3,839
4	TOTAL OPERATING REVENUE	<u>\$ 426,900</u>	<u>\$ -</u>	<u>\$ 426,900</u>	<u>\$ 212,291</u>	<u>\$ 639,191</u>
	Operating Expenses:					
5	Labor	\$ 131,623	\$ (1,183)	\$ 130,440	\$ -	\$ 130,440
6	Purchased Water	\$ -	-	-	-	-
7	Fuel & Power	25,631	-	25,631	-	25,631
8	Chemicals	2,190	-	2,190	-	2,190
9	Waste Disposal	(27)	27	-	-	-
10	Management Fees	87,180	(1,049)	86,131	-	86,131
11	Group Insurance	24,921	-	24,921	-	24,921
12	Pensions	28,546	-	28,546	-	28,546
13	Regulatory Expense	1,480	558	2,038	-	2,038
14	Insurance Other Than Group	5,049	-	5,049	-	5,049
15	Customer Accounting	11,644	-	11,644	-	11,644
16	Rents	4,146	-	4,146	-	4,146
17	General Office Expense	8,811	-	8,811	-	8,811
18	Miscellaneous	49,935	1,215	51,150	-	51,150
19	Maintenance Expense	17,394	1,478	18,872	-	18,872
20	Depreciation & Amortization	81,679	(412)	81,267	-	81,267
21	General Taxes - Property Taxes	26,350	3,887	30,236	-	30,236
22	General Taxes - Other	11,078	-	11,078	-	11,078
23	Income Tax	(52,178)	19,727	(32,451)	49,832	17,381
24	Rounding	-	-	-	-	-
25	TOTAL OPERATING EXPENSES	<u>\$ 465,453</u>	<u>\$ 24,247</u>	<u>\$ 489,700</u>	<u>\$ 49,832</u>	<u>\$ 539,531</u>
26	OPERATING INCOME (LOSS)	<u>\$ (38,553)</u>	<u>\$ (24,247)</u>	<u>\$ (62,800)</u>	<u>\$ 162,459</u>	<u>\$ 99,660</u>

References:

Column (A): Company Schedule C-1
Column (B): RLM-7, Columns (B) Thru (H)
Column (C): Column (A) + Column (B)
Column (D): RLM-1, Pages 1 & 2
Column (E): Column (C) + Column (D)

SURREBUTAL SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTMENTS

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) SURREBUT'L ADJMT NO. 2	(C) SURREBUT'L TANK MAINTENANCE	(D) SURREBUT'L ADJMT NO. 3	(E) REVISED ADJMT NO. 1 PROPERTY TAX	(F) REVISED ADJMT NO. 2 DEPRECIAT'N & AMORTIZ'N	(G) ADJMT NO. 3 RATE CASE EXPENSE	(H) ADJMT NO. 4 WASTE DISPOSAL	(I) ADJMT NO. 5 AIP EXPENSE	(J) ADJMT NO. 6 MISC EXPENSES	(K) REVISED ADJMT NO. 7 INCOME TAX	(L) RUCO AS ADJTD
1	Revenues:												
2	Metered Water Revenues	\$ 423,061	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 423,061
3	Unmetered Water Revenues	-	-	-	-	-	-	-	-	-	-	-	-
4	Other Water Revenues	3,839	-	-	-	-	-	-	-	-	-	-	3,839
	TOTAL OPERATING REV.	\$ 426,900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 426,900
5	Operating Expenses:												
6	Labor	\$ 131,623	\$ (1,183)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 130,440
7	Purchased Water	-	-	-	-	-	-	-	-	-	-	-	-
8	Fuel & Power	25,631	-	-	-	-	-	-	-	-	-	-	25,631
9	Chemicals	2,190	-	-	-	-	-	-	-	-	-	-	2,190
10	Waste Disposal	(27)	-	-	-	-	-	-	27	-	-	-	-
11	Management Fees	87,180	-	-	-	-	-	-	-	(1,049)	-	-	86,131
12	Group Insurance	24,921	-	-	-	-	-	-	-	-	-	-	24,921
13	Pensions	28,546	-	-	-	-	-	-	-	-	-	-	28,546
14	Regulatory Expense	1,480	-	-	-	-	-	558	-	-	-	-	2,038
15	Insurance Other Than Group	5,049	-	-	-	-	-	-	-	-	-	-	5,049
16	Customer Accounting	11,644	-	-	-	-	-	-	-	-	-	-	11,644
17	Rents	4,146	-	-	-	-	-	-	-	-	-	-	4,146
18	General Office Expense	8,811	-	-	-	-	-	-	-	-	-	-	8,811
19	Miscellaneous	49,935	-	-	1,575	-	-	-	-	-	(360)	-	51,150
20	Maintenance Expense	17,394	-	1,478	-	-	-	-	-	-	-	-	18,872
21	Depreciation & Amortization	81,679	-	-	-	-	(412)	-	-	-	-	-	81,267
22	General Taxes - Property Taxes	26,350	-	-	-	3,887	-	-	-	-	-	-	30,236
23	General Taxes - Other	11,078	-	-	-	-	-	-	-	-	-	-	11,078
24	Income Tax	(52,178)	-	-	-	-	-	-	-	-	-	19,727	(32,451)
25	TOTAL OPERATING EXP.	\$ 465,453	\$ (1,183)	\$ 1,478	\$ 1,575	\$ 3,887	\$ (412)	\$ 558	\$ 27	\$ (1,049)	\$ (360)	\$ 19,727	\$ 485,700
26	OPERATING INC. (LOSS)	\$ (38,553)											\$ (62,800)

SURREBUTAL ADJUSTMENTS:
2 Labor Expense
3 Tank Maintenance
5 Water Testing Expense

REFERENCE:
Surrebutal Testimony, RLM
Surrebutal Testimony, RLM
Surrebutal Testimony, RLM

ADJUSTMENTS:
1 Property Tax Computation
2 Depreciation And Amortization Expense
3 Rate Case Expense
4 Waste Disposal Expense
5 Annual Incentive Pay Program Expense
6 Miscellaneous Expenses
7 Income Tax

REFERENCE:
Testimony, RLM And Schedule RLM-8
Testimony, RLM And Schedule RLM-9
Testimony, RLM And Schedule RLM-10
Testimony, RLM
Testimony, RLM And Schedule RLM-11
Testimony, RLM And Schedule RLM-12
Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Year 2005	Co. Sch. E-2	\$ 435,053	
2	Year 2006	Co. Sch. E-2	405,985	
3	RUCO Proposed Revenue	RUCO Sch. RLM-6	639,191	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 1,480,229	
5	Average Annual Operating Revenues	Line 4 / 3	493,410	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 986,819
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. E-1, Page 2	\$ 479,596	
8	10% Of CWIP	Line 7 X 10%		\$ 47,960
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Workpapers	\$ -	
10	Acc. Dep. Of Transportation Equipment	Company Workpapers	-	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ -
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 1,034,779
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	23.0%	
14	Assessed Value	Line 12 X Line 13	\$ 237,999	
Property Tax Rates:				
15	Primary Tax Rate	Company Workpapers	12.70%	
16	Secondary Tax Rate	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	12.70%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 30,237
19	Test Year Adjusted Property Tax Expense As Filed	Co. Sch. C-1		26,350
20	Decrease In Property Tax Expense	Line 18 - Line 19		\$ 3,887
21	RUCO Adjustment (See RLM-6, Column (B))	Line 20		\$ 3,887

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCOUNT NO.	ACCOUNT NAME	(A) TOTAL PLANT VALUE	(B) COMPANY PROPOSED DEP. RATES	(C) TEST YEAR DEPRECIATION EXPENSE
1	301000	Organization	\$ 567	0.00%	\$ -
2	302000	Franchises	2,030	0.00%	-
3	303200	Land & Land Rights SS	20,414	0.00%	-
4	303300	Land & Land Rights P	50	0.00%	-
5	303400	Land & Land Rights WT	50	0.00%	-
6	303500	Land & Land Rights TD	422	0.00%	-
7	303600	Land & Land Rights AG	2,755	0.00%	-
8	304100	Struct & Imp SS	25,292	2.21%	559
9	304200	Struct & Imp P	14,608	2.21%	323
10	304300	Struct & Imp WT	-	2.21%	-
11	304400	Struct & Imp TD	156	2.21%	3
12	304600	Struct & Imp Offices	498	2.21%	11
13	304800	Struct & Imp Misc	-	0.00%	-
14	305000	Collect & Impounding	-	0.00%	-
15	307000	Wells & Springs	238,951	3.08%	7,360
16	310100	Power Generation Equip Other	4,832	4.24%	205
17	311200	Pump Equip Electric	281,110	4.24%	11,919
18	311300	Pump Equip Diesel	879	4.24%	37
19	311500	Pump Equip Other	403,823	4.24%	17,122
20	320100	WT Equip Non-Media	55,863	4.00%	2,235
21	330000	Dist Reservoirs & Standpipe	151,203	1.62%	2,449
22	331001	TD Mains Not Classified By Size	301,122	1.97%	5,932
23	331100	TD Mains 4in & Less	874,456	1.97%	17,227
24	331200	TD Mains 6in to 8in	390,384	1.97%	7,691
25	331300	TD Mains 10in to 16in	-	2.34%	-
26	333000	Services	401,618	2.45%	9,840
27	334100	Meters	99,053	2.42%	2,397
28	334200	Meter Installations	20,328	2.42%	492
29	335000	Hydrants	78,367	1.97%	1,544
30	339100	Other P/E Intangible	-	0.00%	-
31	339500	Other P/E TD	-	0.00%	-
32	340100	Office Furniture & Equip	5,453	3.28%	179
33	340200	Comp & Periph Equip	1,336	10.83%	145
34	341100	Trans Equip Lt Duty Trks	17,166	25.00%	4,292
35	341200	Trans Equip Hvy Duty Trks	-	15.00%	-
36	342000	Stores Equipment	-	3.59%	-
37	343000	Tools, Shop, Garage Equip	14,442	3.59%	518
38	344000	Laboratory Equipment	-	0.00%	-
39	345000	Power Operated Equipment	-	4.64%	-
40	346100	Comm Equip Non-Telephone	1,932	5.03%	97
41	346300	Comm Equip Other	659	4.93%	32
42	SUB-TOTAL	TEST YEAR DIRECT UPIS AND DEPRECIATION EXPENSE	\$ 3,409,819		\$ 92,608
43	SUB-TOTAL	TEST YEAR CORPORATE UPIS AND DEPRECIATION EXPENSE	12,387		3,026
44	SUB-TOTAL	POST TEST YEAR DEPRECIATION EXPENSE ON UPIS	-		-
45	TOTAL	DEPRECIATION EXPENSE ON UPIS			\$ 95,635
46		AMORTIZATION OF DEFERRED DEBIT - Y2K COSTS			-
47		AMORITZATION OF REGULATORY ASSETS			-
48		AMORTIZATION OF CONTRIBUTIONS			-
49		AMORTIZATION OF REGULATORY CIAC			(14,368)
50		Rounding			-
51	TOTAL DEPRECIATION EXPENSE				\$ 81,267
52	Company As Filed				81,679
53	Difference				\$ (412)
54	RUCO Adjustment (See RLM-7, Column (C))				\$ (412)

References:

Column (A): RLM-3, Page 7, Column (D)
Column (B): RLM-3, Page 1, Column (A)
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
MISCELLANEOUS ADJUSTMENTS**

LINE NO	DESCRIPTION	(A)	(B)	(C)	(D)
		ALLOCABLE TOTAL	RUCO ADJUSTMENTS ALLOC'N 4-FACTOR	DISTRICT TOTAL	RUCO AS ADJUSTED
1	Tubac Water Direct Miscellaneous Account (RLM-12, Pg, Ln 113)	\$ (17.12)	100.00%	\$ (17)	
2	Corporate Office Allocable Miscellaneous Account (RLM-12, Pg 4, Ln 98)	\$ (13,607.91)	0.7254%	\$ (99)	
3	TOTAL				<u>\$ (116)</u>

NOTE

4-Factor Allocation

4	Sun City West Water District	8.3198%
5	Paradise Valley Water District	7.6863%
6	Tubac Water District	0.7254%
7	Agua Fria Water District	23.0946%
8	Havasui Water District	1.3850%
9	Mohave Water District	7.8288%
10	Mohave Wastewater District	1.0290%

ADDITIONAL ADJUSTMENT FOR TUBAC WATER DISTRICT

The Company Incorrectly Calculated "Corporate Office" Expense As A Positive Value Instead Of A Negative Value

Adjustment SLH-16 As Filed By Company

11	Tubac Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (100)	100.00%	\$ (100)	
12	Corporate Office Allocable Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ 16,849	0.7254%	<u>\$ 122</u>	
13	SUB-TOTAL				\$ 22

Company's Adjustment As Revised By RUCO

14	Tubac Water Direct Miscellaneous Account (Co. Sch. C-2, Pg 22)	\$ (100)	100.00%	\$ (100)	
15	Corporate Office Misc. Account (Recorded As a Negative Amount)	\$ (16,849)	0.7254%	<u>\$ (122)</u>	
16	SUB-TOTAL				\$ (222)
17	DIFFERENCE (Column D, Line 16 - Line 13)				<u>\$ (244)</u>
18	TOTAL (Column D, Sum Of Line 3 + Line 17)				<u>\$ (244)</u>
19	RUCO ADJUSTMENT TO MISCELLANEOUS ADJUSTMENTS (Sum Of Lines 3 & 18) (See RLM-7, Column (G))				<u>\$ (360)</u>

References:

Column (A): RLM-12, Pages 2 Thru 5 Derived From Company's Line 21 Workpapers
Column (B): See NOTE
Column (C): Column (A) X Column (B)

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
INCOME TAX EXPENSE**

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Sch. RLM-6, Column (C), L26 + L23	\$ (95,251)
	LESS:		
2	Arizona State Tax	Line 11	(9,633)
3	Interest Expense	Note (A) Line 20	42,996
4	Federal Taxable Income	Line 1 - Line 2 - Line 3	\$ (128,614)
5	Federal Tax Rate	Sch. RLM-1, Pg 2, Col. (D), L34	17.74%
6	Federal Income Tax Expense	Line 4 X line 5	<u>\$ (22,818)</u>
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ (95,251)
	LESS:		
8	Interest Expense	Note (A) Line 20	42,996
9	State Taxable Income	Line 7 - Line 8	\$ (138,247)
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	<u>\$ (9,633)</u>
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ (22,818)
13	State Income Tax Expense	Line 11	(9,633)
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	<u>\$ (32,451)</u>
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		(52,178)
16	Total Income Tax Adjustment	Line 14 - Line 15	<u>\$ 19,727</u>
17	RUCO Adjustment (See Sch. RLM-7, Column (J))	Line 16	<u>\$ 19,727</u>

NOTE (A):

Interest Synchronization:

18	Adjusted Rate Base (Sch. RLM-2, Col. (H), L17)	\$ 1,423,707
19	Weighted Cost Of Debt (Sch. RLM-16 Col. (F), L1)	3.02%
20	Interest Expense (L18 X L19)	<u>\$ 42,996</u>

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
PROPOSED REVENUE

LINE NO.	DESCRIPTION	(A) TEST YEAR DETERMIN'TS	(B) ANN'ZED ADJUSTM'TS	(C) TEST YEAR ADJUSTED DETERMIN'TS	(D) PROPOSED CHARGES & USAGE FEES	(E) RUCO PROPOSED REVENUES	(F) TOTAL REVENUES
RESIDENTIAL CUSTOMERS							
1	F1M1A - 5/8" & 3/4"	481	1	482	\$ 29.45	\$ 163,274	\$ 163,274
	Commodity Usage						
2	First Tier - First 4,000 Gals.	17,836	118	17,954	\$ 3.4248	\$ 61,086	
3	Second Tier - Next 16,000 Gals.	32,438	-	32,438	\$ 4.3943	\$ 142,542	
4	Third Tier - Over 20,000 Gals.	14,857	-	14,857	\$ 4.4849	\$ 66,632	
							\$ 270,260
5	F1M1B - 1"	23	0.2	23	\$ 44.33	\$ 12,462	\$ 12,462
	Commodity Usage						
6	First Tier - First 35,000 Gals.	3,655	41	3,696	\$ 4.3943	\$ 16,062	
7	Second Tier - Over 35,000 Gals.	2,032	-	2,032	\$ 4.4849	\$ 9,113	
							\$ 25,176
11	F1M1D - 2"	3	-	3	\$ 145.87	\$ 5,285	\$ 5,285
	Commodity Usage						
12	First Tier - First 150,000 Gals.	1,628	-	1,628	\$ 4.3943	\$ 7,154	
13	Second Tier - Over 150,000 Gals.	17	-	17	\$ 4.4849	\$ 76	
							\$ 7,230
14	F1M1E - 3"	1	-	1	\$ 173.04	\$ 2,071	\$ 2,071
	Commodity Usage						
15	First Tier - First 175,000 Gals.	10	-	10	\$ 4.3943	\$ 44	
16	Second Tier - Over 175,000 Gals.	0	-	0	\$ 4.4849	\$ -	
							\$ 44
20	Total Residential Customers	489	1	490			
21	Total Residential Usage	72,474	158	72,632			
22	TOTAL RESIDENTIAL CUSTOMERS REVENUE						\$ 485,802
COMMERCIAL CUSTOMERS							
23	F2M1A - 5/8" & 3/4"	47	0	47	\$ 29.45	\$ 16,472	\$ 16,472
	Commodity Usage						
24	First Tier - First 20,000 Gals.	3,406	0	3,406	\$ 4.3943	\$ 14,967	
25	Second Tier - Over 20,000 Gals.	1,688	0	1,688	\$ 4.4849	\$ 7,570	
							\$ 22,537
26	F2M1B - 1"	16	0	16	\$ 44.33	\$ 8,512	\$ 8,512
	Commodity Usage						
27	First Tier - First 35,000 Gals.	2,641	64	2,705	\$ 4.3943	\$ 11,804	
28	Second Tier - Over 35,000 Gals.	3,472	0	3,472	\$ 4.4849	\$ 15,572	
							\$ 27,175
29	F2M1C - 1-1/2"	2	0	2	\$ 88.66	\$ 2,128	\$ 2,128
	Commodity Usage						
30	First Tier - First 85,000 Gals.	491	0	491	\$ 4.3943	\$ 2,158	
31	Second Tier - Over 85,000 Gals.		0	0	\$ 4.4849	\$ -	
							\$ 2,158
32	F2M1D - 2"	10	0	10	\$ 145.87	\$ 16,853	\$ 16,853
	Commodity Usage						
33	First Tier - First 150,000 Gals.	6,618	0	6,618	\$ 4.3943	\$ 29,081	
34	Second Tier - Over 150,000 Gals.	2,950	0	2,950	\$ 4.4849	\$ 13,230	
							\$ 42,312
35	F2M1E - 3"	4	0	4	\$ 173.04	\$ 7,706	\$ 7,706
	Commodity Usage						
36	First Tier - First 175,000 Gals.	864	0	864	\$ 4.3943	\$ 3,797	
37	Second Tier - Over 175,000 Gals.	45	0	45	\$ 4.4849	\$ 202	
							\$ 3,998
38	Total Commercial Customers	78	0	78			
39	Total Commercial Usage	22,175	64	22,239			
40	TOTAL COMMERCIAL CUSTOMERS REVENUE						\$ 149,851
41	TOTAL RUCO PROPOSED REVENUE PER BILL COUNT						\$ 635,653
42	Unreconciled Difference vs. Billed Revenues						(301)
43	REVENUE PER BILL COUNT						635,352
44	Other Revenue						3,839
45	TOTAL REVENUE						\$ 639,191
46	PROPOSED REVENUE PER BOOK						\$ 639,191
	Difference						\$ 0

TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
	REVENUE ALLOCATION						
1	RESIDENTIAL	\$ 321,006	75.84%	\$ 536,183	76.43%	\$ 485,802	76.43%
2	OTHER	102,238	24.16%	165,391	23.57%	149,851	23.57%
3	TOTAL	<u>\$ 423,244</u>	<u>100.00%</u>	<u>\$ 701,574</u>	<u>100.00%</u>	<u>\$ 635,653</u>	<u>100.00%</u>
	ALLOCATION RATIOS						
4	FIX REVENUE	\$ 156,585	37.00%	\$ 259,109	36.93%	\$ 234,763	36.93%
5	VARIABLE REVENUE	266,659	63.00%	442,465	63.07%	400,890	63.07%
6	TOTAL	<u>423,244</u>	<u>100.00%</u>	<u>\$ 701,574</u>	<u>100.00%</u>	<u>\$ 635,653</u>	<u>100.00%</u>
	RESIDENTIAL (5/8" X 3/4") RATE DESIGN						
		PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	BASIC MONTHLY CHARGE	\$ 19.68		\$ 32.50		\$ 29.45	
	COMMODITY CHARGE						
	PRESENT PROPOSED						
8	First Tier - First 4,000 Gals.	\$ 1.89		\$ 3.78		\$ 3.42	
9	Second Tier - Next 16,000 Gals.	\$ 2.85		\$ 4.85		\$ 4.39	
10	Third Tier - Over 20,000 Gals.	\$ 3.41		\$ 4.95		\$ 4.48	
	RESIDENTIAL BILL COMPARISONS						
	COST OF WATER SERVICE						
	AT DIFFERENT LEVELS OF USAGE						
	WITH PERCENTAGE INCREASE IN BILL						
		MONTHLY CONSUMPTION	% OF AVERAGE MONTH USAGE OF 11,767 Gal.	PRESENT MONTHLY WATER COST	RUCO PROP'D MONTHLY WATER COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
11		2,942	25.00%	\$ 25.24	\$ 39.52	\$ 14.28	56.58%
12		5,884	50.00%	\$ 32.61	\$ 51.42	\$ 18.81	57.70%
13		11,767	100.00%	\$ 49.38	\$ 77.28	\$ 27.90	56.51%
14		17,651	150.00%	\$ 66.15	\$ 103.13	\$ 36.99	55.92%
15		23,534	200.00%	\$ 84.89	\$ 129.30	\$ 44.41	52.32%

OPENING STATEMENT

My participation in this rate case was limited to specific adjustments to the net operating income in the determination of the revenue requirements. I analyzed Arizona-American's proposed adjustments and through the discovery process and the filed direct, rebuttal, surrebuttal and rejoinder testimonies RUCO and the Company are in substantial agreement on most issues. I also sponsor RUCO's proposed rate design for each system.

For informational purposes and to try and avoid confusion over which RUCO witness is supporting what issues, I'll explain how RUCO divided up the responsibilities in this case. Generally, I sponsored all the Operating Revenue and Expense Adjustments plus the Rate Design for all Districts, Tim Coley sponsored all the Rate Base Adjustments and Bill Rigsby handle Cost of Capital and all the major policy issues such as the White Tanks project, Tubac ACRM, Paradise Valley Public Safety and System-Benefit Surcharges, Company-Wide Fuel and Power Supply Adjustor, and Tank Maintenance Expenses.

However, if there is a specific computation that requires clarification as to the accuracy of the inputted data..... ~~(as compared to the general overall philosophy that initiated RUCO's adjustment)~~; then the RUCO witness that actually analyzed that District's application would have to be questioned. For those types of questions, I did the analysis of the following Water Districts: Agua Fria, Paradise Valley, Sun City West and Tubac. While Tim Coley analyzed Havasu and Mohave Water & Wastewater Districts.

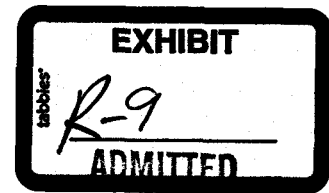
As for my analysis, there is one issue I reviewed, which still remains in dispute. That difference is:

Rate Case Expense – RUCO recommends a level of rate case expense that reflects a reasonable financial burden for the ratepayers in this rate application process.

First, RUCO and the Company recommend levels of rate case expense that reflects a different reasonable financial burden for the ratepayers in this rate application process.

Second, RUCO disagrees with the Company's proposal to include the unamortized portion of the prior rate case expenses for Mohave Water and Mohave Wastewater districts for recovery in the instant case.

ARIZONA-AMERICAN WATER COMPANY



DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 9, 2009

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INTRODUCTION

Q. Please state your name, position, employer and address.

A. Timothy J. Coley, Public Utilities Analyst V
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Arizona-American Water Company's ("Company" or "Arizona-American") application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended December 31, 2007.

1 **BACKGROUND**

2 Q. Please describe your work effort on this project.

3 A. I obtained and reviewed data and performed analytical procedures
4 necessary to understand the Company's filing as it relates to operating
5 income, rate base, the Company's overall revenue requirement. My
6 recommendations are based on these analyses. Procedures performed
7 include the in-house formulation and analysis of several sets of data
8 requests, the review and analysis of the Company's responses to
9 Commission Staff data requests, and review of prior ACC dockets related
10 to Arizona-American.

11
12 The Company's filing consists of an application for increases in rates and
13 charges for the following seven Districts: Agua Fria Water District,
14 Havasu Water District, Mohave Water, Mohave Wastewater District,
15 Paradise Valley Water District, Sun City West District, and Tubac Water
16 District.

17
18 RUCO's participation in this proceeding is the cumulative effort of three
19 RUCO witnesses; myself (Timothy J. Coley), Rodney L. Moore, and
20 William A. Rigsby. For the review and analysis procedures, specific
21 Districts were assigned to Mr. Moore and myself. I was assigned Havasu
22 Water District, Mohave Water District and Mohave Wastewater District.
23 Mr. Moore was assigned Paradise Valley Water District ("PV"), Sun City

1 West Water District ("SCWW"), Tubac Water District ("Tubac"), and Agua
2 Fria Water District ("Agua Fria"). However, to avoid confusion and
3 duplication, the testimony filed by RUCO in support of its analysis was
4 allocated among the analysts by ratemaking elements.

5
6 Q. Please explain how these ratemaking elements were allocated?

7 A. I will address issues related to the rate base. Mr. Moore will address
8 issues related to operating income. Mr. Rigsby will provide an analysis of
9 the cost of capital, Paradise Valley Water District's public safety and
10 system-benefit surcharges, Tubac Water District's arsenic cost recovery
11 mechanism ("ACRM"), and the Company wide fuel and power supply
12 adjustor, and the pro forma tank maintenance expense. Moreover, each
13 witness will address the appropriate revenue requirement for the Districts
14 analyzed.

15
16 Also, Mr. Moore will address rate design in his testimony to be filed
17 January 18, 2009.

18
19 Q. Please identify the exhibits you are sponsoring.

20 A. I am sponsoring schedules for Havasu, Mohave Water and Wastewater
21 Districts numbered RLM-1 through RLM-14.

SUMMARY OF ADJUSTMENTS

Q. Please summarize the adjustments to the rate base in your testimony.

A. My testimony addresses the following issues:

Rate Base

RUCO is in substantial agreement with several of the Company's pro-forma adjustments. Nevertheless, RUCO reserves the right to alter its position if additional evidence is produced in this case, which warrants RUCO to reconsider its position. RUCO did not make any direct adjustments to the Company's pro-forma rate base adjustments identified as:

LJG-1 – Adjust for Errors in Accumulated Depreciation

LJG-2 – Adjust for Staff Removals in Decision No. 69440

LJG-3 – Spread Dec. '07 Corporate JE to Districts

LJG-4 – Allocate Corporate to Districts

LJG-5 – Spread Dec. '07 Corporate JE to Districts

TMB-7 – Imputed Advances in Aid of Construction ("AIAC")

TMB-8 – Imputed Contributions in Aid of Construction ("CIAC")

TMB-9 – Remove Acquisition Adjustment

LJG-10 – Post Test-Year Plant Additions (Except Mohave Wastewater)

1 However, through the analytic process, RUCO did make prudent revisions
2 to the Company's filing. The RUCO rate base adjustments are identified
3 as:

4 Accumulated Depreciation – This adjustment is primarily based on
5 RUCO's mid-month depreciation convention rather than the Company's
6 full-month depreciation convention for plant additions, adjustments, and
7 retirements. RUCO also determined the Company did not use the
8 authorized depreciation rates in a few plant accounts primarily in Accounts
9 340100 through 346300. In some instances, the Company had new
10 accounts for which no depreciation rate had been authorized in previous
11 Commission decisions.

12 Restore the AIAC and CIAC Balances Associated with Construction Work
13 in Process ("CWIP") – This adjustment reverses and restates the
14 Company's adjustment that decreases the AIAC and CIAC balances
15 associated with CWIP.

16 Remove 50 percent of the Post Test-year Wishing Well Treatment Plant –
17 This adjustment is unique to only Mohave Wastewater. It removes 50
18 percent of the Company's post test-year Wishing Well Treatment Plant
19 adjustment from plant in service as not used and useful for the current
20 level of customers for which it was designed.

21 Deferred Debits – This is a conforming adjustment to reflect the
22 Company's updated calculation correction identified in its response to
23 Staff data request GWB 17.1.

Working Capital – This adjustment reduces the cash working capital element of the working capital allowance requested by the Company.

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedules RLM-1, RUCO is recommending that the increase in the Company's revenue requirement not exceed:

<u>Havasu Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 815,803	\$ 660,219	(\$ 155,584)

<u>Mohave Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 1,655,410	\$ 706,615	(\$ 945,601)

<u>Mohave Wastewater</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 642,148	\$ 165,546	(\$ 476,602)

My recommended revenue requirement percentage increase versus the Company's proposal is as follows:

<u>Havasu Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	79.47%	64.31%	(15.16%)

<u>Mohave Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	32.37%	13.82%	(18.49%)

<u>Mohave Wastewater</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	80.66%	20.79%	(59.87%)

RUCO's recommended Fair Value Rate Base ("FVRB") based on the Original Cost Rate Base ("OCRB") is summarized on Schedules RLM-1 as follows:

<u>Havasu Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 4,221,474	\$ 4,012,421	(\$ 209,053)

<u>Mohave Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 12,041,310	\$ 9,841,553	(\$ 2,172,389)

<u>Mohave Wastewater</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 4,740,149	\$ 2,713,527	(\$ 2,026,622)

RUCO's recommended required operating income is shown on Schedules RLM-1 as follows:

<u>Havasu Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 354,604	\$ 280,715	(\$ 73,889)

<u>Mohave Water</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 1,011,470	\$ 688,531	(\$ 321,024)

<u>Mohave Wastewater</u>	<u>AZ-AM</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
	\$ 398,173	\$ 189,843	(\$ 208,330)

RATE BASE

Rate Base Summary

Q. Is RUCO recommending any changes to the Company's proposed rate base?

A. Yes. RUCO witnesses analyzed the Company's rate base adjustments to its historical test-year elements of rate base and made adjustments to the rate base as filed by the Company. The cumulative review, analysis and adjustments completed by each RUCO witness are explained below.

RUCO Rate Base Adjustment #1 - Accumulated Depreciation

Q. Please explain RUCO's adjustment to the Company's accumulated depreciation balances.

A. This adjustment is common for all districts, excluding PV, filed in this case. I will address the uniqueness of the PV adjustment at the end of this particular discussion.

RUCO employs a mid-month depreciation convention and applies the last authorized depreciation rate to the appropriate accounts in calculating the levels of accumulated depreciation for each district.

1 Q. How is RUCO's methodology for determining the accumulated
2 depreciation for each district different than the Company's methodology
3 employed in calculating the test year end accumulated depreciation
4 balances?

5 A. The Company utilizes a full-month depreciation method for all plant
6 additions, adjustments, and retirements. It also uses depreciation rates, in
7 some instances, which are not the same as authorized in the prior cases.
8 In a few instances, the Company has a completely new account for which
9 no depreciation rate has been authorized in a prior case.

10
11 Q. Why does RUCO believe that a mid-month depreciation convention is
12 superior to a full-month depreciation convention?

13 A. RUCO's opinion regarding Generally Accepted Accounting Principles
14 ("GAAP") does not recognize a full-month depreciation methodology as
15 being an accepted depreciation convention method. The typical
16 convention methods recognized by GAAP are half-year and mid-month.
17 The mid-month convention assumes all additions, adjustments, and
18 retirements are made on the 15th day of the month. This mid-month
19 assumption eliminates excessive tracking and depreciating an asset from
20 the day it was actually booked.

1 Q. What adjustment is necessary to employ the mid-month depreciation
2 convention and correct certain depreciation rates used by the Company
3 for each district?

4 A. It is necessary to increase (decrease) accumulated depreciation by the
5 following amounts for each district:

6	Agua Fria	(\$718,594)	Havasu	(\$4,659)
7	Mohave Water	(\$175,741)	Mohave WW	(\$62,797)
8	Sun City West	\$11,065	Tubac	(\$1,550)

9
10 Q. Please discuss RUCO rate base adjustment #1 pertaining to the PV
11 district.

12 A. This adjustment conforms with the Company's revised level of test-year
13 depreciation rates as explained in Arizona-American's response to RUCO
14 data request RLM 1.31 that increases accumulated depreciation by
15 \$100,554.

16
17 RUCO Rate Base Adjustment #2 – AIAC & CIAC Associated with CWIP

18 Q. Did the Company make an adjustment to remove AIAC and CIAC from
19 rate base that the Company claims is associated with CWIP?

20 A. Yes. This adjustment is common to all seven districts filed in this case.
21
22
23

Q. Does RUCO agree with the Company's adjustment to remove the AIAC and CIAC that it claims is CWIP related?

A. No. Arizona has historically excluded CWIP in rate base and historically included CIAC in rate base. Thus, under RUCO's recommendations, Arizona-American is being afforded the same rate base treatment for these two items that every other utility in Arizona is afforded.

Q. What adjustment is necessary to support RUCO's recommendation to include test-year end AIAC and CIAC balances?

A. It is necessary to reverse the Company's requested adjustments to AIAC and CIAC. The Company claims that AIAC and CIAC supports CWIP. The adjustment will increase the AIAC and CIAC balances and thus, reduce rate base as follows:

	<u>AIAC</u>	<u>CIAC</u>
Agua Fria		\$ 3,432,286
Havasu		10,645
Mohave Water	\$ 291,910	94,453
Mohave WW		65,395
Paradise Valley		322,588
Sun City West		17,318
Tubac	20,266	

RUCO Rate Base Adjustment #3 – Various Adjustments Pertaining to Different Districts

Q. Please explain RUCO rate base adjustment #3 as it pertains to Agua Fria and Mohave Water Districts.

A. This is a specific adjustment for Agua Fria and Mohave Water Districts to conform with the Company's response to Staff data request GTM 18.7, 2nd Supplement. The Company stated, "An error was made to Mohave Water by reducing CIAC for a disbursement which belonged in the Agua Fria Water district." The CIAC was correctly transferred but no corresponding adjustment had been made to correct the accumulated amortization balance for the two districts. This adjustment decreases Agua Fria's CIAC balance by \$28,016 and increases Mohave Water CIAC by \$27,517.

Q. Please discuss RUCO rate base adjustment #3 to Paradise Valley.

A. This is a specific adjustment for the PV Water District to conform with the Company's response to RUCO data request 1.34. It relates to the removal of post-test-year plant adjustment, Well #12, which the Company later removed from this rate case. The Company had never received the proper permits to begin construction. It reduces post test-year plant by \$2,109,032.

1 Q. Please discuss RUCO rate base adjustment #3 to Sun City West Water
2 District.

3 A. This is a specific adjustment for the Sun City West Water District to
4 conform with the Company's response to Staff data request DH 4.3. The
5 Company's response stated the following:

6 However, while investigating these retirements, we found that
7 \$70,000 was for an estimate of tanks in Paradise Valley.
8 Therefore, the \$70,000 retirement should be reversed in Sun City
9 West.

10
11 The actual amount of \$68,702.47 should be retired from PV –
12 tanks.

13
14 Also, 2 of the 6 retirement work orders totaling \$6,672 are actually
15 Sun City electric pump retirements rather than Sun City West
16 electric pump retirements, and should be reversed in Sun City West
17 and corrected on the books of Sun City.

18
19 The Company recommends Staff makes [sic] these changes in its
20 direct case.
21

22 Q. What adjustment did RUCO make to correct the erroneous booked plant
23 items?

24 A. RUCO witness, Mr. Moore, increased plant in service by the amount of
25 \$76,672 and increased accumulated depreciation by \$76,531 for a net
26 adjustment of \$141.

1 RUCO Rate Base Adjustment #4 – Various Adjustments Pertaining to Different
2 Districts

3 Q. Please explain RUCO's rate base adjustment #4 for Agua Fria and Sun
4 City West Water Districts.

5 A. This particular adjustment for the two districts is a derivative from Staff
6 data request GB 9.4. The data request asked the Company to provide
7 support for certain plant additions for years 2003 through 2007 for several
8 accounts. The Company's response identified two plant items in Account
9 311200 – Electric Pumping Equipment - that were booked to the wrong
10 water district in 2005.

11
12 Arizona-American had originally booked the two plant items to Sun City
13 West rather than the proper district of Agua Fria. This adjustment properly
14 transfers the plant items to the Agua Fria District from the Sun City West
15 District.

16
17 Q. What adjustment was necessary to properly transfer the two plant items to
18 the appropriate district?

19 A. RUCO witness, Mr. Moore, removed \$18,581 for the two plant items from
20 Sun City West and transferred the same amount to the Agua Fria District.
21 An accommodating adjustment was also necessary to remove the
22 accumulated depreciation from the Sun City West District of \$860 and add
23 \$2,375 of accumulated depreciation to the Agua Fria District.

1 Q. Please explain RUCO's rate base adjustment #4 to the Mohave
2 Wastewater District.

3 A. RUCO's rate base adjustment #4 to Mohave Wastewater removes 50
4 percent of the Company's post test-year Wishing Well Treatment Plant
5 expansion adjustment from plant in service. Additional discussion on the
6 facility is being presented in the direct testimony of RUCO witness William
7 A. Rigsby.

8
9 Q. What rationale did RUCO use in making the adjustment to remove 50
10 percent of the Company's post test-year adjustment for the Wishing Well
11 Treatment Plant expansion?

12 A. RUCO used the rationale to remove 50 percent of the plant that is based
13 on the accepted ratemaking concept of "not currently used and useful."

14
15 Q. What evidence did RUCO collect in its analysis that led it to conclude the
16 plant is not currently used and useful in providing service to the existing
17 customers?

18 A. Test-year end level of customers was approximately 1,235. The original
19 plant, excluding the expansion, served that level of customers adequately.
20 In Staff data request DH 16.2, Staff Engineer, Ms. Dorothy Hains, stated
21 "based on the projected next five year growth rate and 2007 wastewater
22 flow data, this project is more than 50% overbuilt." The Company
23 responded to the same data request saying that the economy slowed

1 during construction of the plant but still has the signed commitments from
2 the developers.

3
4 Q. What is RUCO's position regarding Staff's proposed five year study that
5 the plant is overbuilt by 50 percent?

6 A. RUCO position is that 50 percent of the plant expansion be currently
7 excluded from rate base until it is deemed used and useful. We also
8 understand that development has slowed tremendously as the economy is
9 in a downturn. There is no indication that the economy has begun to level
10 off. Most economists predict that it has not bottomed out yet. There is no
11 clear sign when the economy will fully recover. RUCO does not believe
12 the current ratepayers should be strapped with the excess capacity until
13 the developments are built out.

14
15 Q. Please explain the RUCO's Paradise Valley rate base adjustment #4.

16 A. This is the same adjustment as explained in RUCO rate base adjustment
17 #1. The primary reasons leading to the adjustment is the mid-month
18 depreciation convention utilized by RUCO and different depreciation rates
19 in a few instances.

Q. What adjustment did RUCO make to account for the differences mentioned above?

A. Mr. Moore made an adjustment to decrease accumulated depreciation by \$456,414.

RUCO Rate Base Adjustment #5 – Deferred Debits with the Exception of Paradise Valley

Q. Please discuss RUCO's rate base adjustment #5 to deferred debits.

A. This adjustment is common to six of the seven districts excluding PV. I will discuss the PV adjustment later in this section.

RUCO's rate base adjustment #5 conforms with the Company's response to Staff's data request GWB 17.1. The Company concluded upon further investigation of the details that the amount for deferred debits as filed in its rate application was incorrect. The Company provided a spreadsheet updating the new calculations for deferred debits in each district.

Q. What adjustments were necessary to properly reflect the new amounts for the deferred debits?

A. The following adjustments were necessary to increase (decrease) rate base in the amounts below:

Agua Fria	(\$ 3,321,116)	Havasu	(\$ 145,701)
Mohave Water	(\$ 1,649,972)	Mohave WW	\$ 7,701

1 Sun City West \$ 892,284 Tubac (\$51,122)

2
3 Q. Please discuss RUCO's PV rate base adjustment #5.

4 A. This is the corresponding adjustment that Mr. Moore made and was
5 discussed in the Sun City West rate base adjustment #3. I will reiterate
6 what I provided in that response here.

7
8 This specific adjustment for the PV Water District conforms to the
9 Company's response to Staff data request DH 4.3. The Company's
10 response stated the following:

11 However, while investigating these retirements, we found that
12 \$70,000 was for an estimate of tanks in Paradise Valley.
13 Therefore, the \$70,000 retirement should be reversed in Sun City
14 West.

15 The actual amount of \$68,702.47 should be retired from PV –
16 tanks.

17
18 Also, 2 of the 6 retirement work orders totaling \$6,672 are actually
19 Sun City electric pump retirements rather than Sun City West
20 electric pump retirements, and should be reversed in Sun City West
21 and corrected on the books of Sun City.

22
23 The Company recommends Staff makes [sic] these changes in its
24 direct case.
25
26

1 Q. What adjustment did RUCO make to correct the erroneous booked plant
2 items?

3 A. RUCO witness, Mr. Moore, decreased plant in service by the amount of
4 \$68,702 and decreased accumulated depreciation by \$90 for a net
5 adjustment of \$68,612.

6
7 RUCO Rate Base Adjustment #6 – Working Capital with the Exception of
8 Paradise Valley

9 Q. What amount of working capital is the Company requesting?

10 A. The Company is requesting a total of \$3,736,152 for working capital,
11 inclusive of all seven districts. The amount for each individual district is
12 shown below, excluding PV:

13					
14	Agua Fria	\$ 1,816,928	Havas	\$ 111,462	
15	Mohave Water	\$ 434,422	Mohave WW	\$ 62,360	
16	Sun City West	\$ 561,556	Tubac	\$ 43,709	
17					

18 PV was excluded from the list above because it will be included in RUCO
19 rate base adjustment #7.

1 Q. How did the Company determine the requested amount of working
2 capital?

3 A. The Company determined its working capital request utilizing a lead/lag
4 study.

5
6 Q. Please explain the concept of working capital?

7 A. A company's working capital requirement represents the amount of cash
8 the company must have on hand to cover any differences in the time
9 period between when revenues are received and expenses must be paid.
10 The most accurate way to measure the working capital requirement is via
11 a lead/lag study. The lead/lag study measures the actual lead and lag
12 days attributable to the individual revenues and expenses.

13
14 Q. Are you proposing any adjustment to the Company-proposed working
15 capital?

16 A. Yes. An adjustment is necessary to restate the working capital
17 requirement based on 1) my recommended level of operating expenses,
18 2) corrections to certain lead/lag days, 3) inclusion of interest expense,
19 and 4) exclusion of non-cash expenditures. These adjustments are shown
20 on the Schedules RLM-5, page 1 and 2 for each district and decrease the
21 amount of working capital accordingly.

1 Other Working Capital Adjustments

2 Q. Please explain the purpose of the adjustments RUCO recommends to
3 working capital proposed by the Company.

4 A. The first part of the adjustment is related to corrections RUCO
5 recommends to various revenue and expense lead/lag days as proposed
6 by the Company's lead/lag study. The second element to the working
7 capital adjustment is the inclusion of interest expense in determining cash
8 working capital. The final component eliminates all non-cash operating
9 expenses that the Company included in its cash working capital lead/lag
10 study calculations.

11
12 RUCO Adjustments to Lag Days

13 Q. Please explain RUCO's adjustments to the Company's lead/lag days in its
14 Lead/Lag Day study for all Arizona-American Districts in this case.

15 A. After analyzing the Company's lead/lag study, RUCO made necessary
16 adjustments to three areas of the Company's study shown in the
17 Company's work papers titled "Lead-Lag". Specifically, RUCO adjusted
18 the Company's lead/lag days; 1) to recalculate the revenue lead/lag days
19 using individual bills from each district and to compare then with the
20 Company's previous lead/lag studies from prior rate cases, 2) to include
21 an expense lag for interest expense, 3) to correct property tax expense lag
22 days, 4) to adjust for fuel/power expense lag days in some districts, and 5)
23 to adjust the income tax lag days from 30.13 days to 28.75. These

1 adjustments result in a change to the Company's proposed net lag days
2 as shown on the respective RUCO Schedules RLM-5, page 2. Finally, I
3 excluded the non-cash operating expense of depreciation/ amortization
4 and rate case expense as was approved by the Commission in the
5 Company's previous two Paradise Valley decisions and the last Mohave
6 Water and Wastewater decision.

7
8 All revenue lead/lag studies are in RUCO's individual districts work papers
9 and all generic adjustments to any expense lag days can be found in the
10 Havasu District work papers.

11
12 Inclusion of Interest Expense to Lead/Lag Study

13 Q. Discuss RUCO's first adjustment to interest expense lag that affects
14 working capital.

15 A. The Company simply did not include the interest expense in its calculation
16 for the lead/lag study. It is appropriate to include interest expense in the
17 lead/lag calculations since ratepayers compensate the Company for
18 interest expense via cost of capital. RUCO had obtained the terms,
19 payment dates, and payment amounts on the debt instruments in the most
20 recent Mohave Water and Wastewater rate case (Decision No. 69440,
21 dated May 1, 2007). That information provided RUCO with the elements
22 necessary to construct a lead/lag study for interest expense.

1 As shown on Schedule RLM-5, page 2 and RUCO Havasu work papers,
2 the interest expense lag days equated to 106.52 days.

3
4 Q. Referring to Schedule RLM-5, page 2, line 17, titled "Interest," please
5 explain the figures and calculations pertaining to line 17.

6 A. Referring to the above referenced schedule, the first number on line 18
7 Column (B) is the synchronized interest amount found on the respective
8 Schedules RLM-1, page 2. The second figure is the same amount found
9 in the respective Column (C) Schedule, line 17 because the Company
10 failed to include any interest expense in its lead/lag calculation study.
11 Column (E), line 18, the "Dollar Days," is the respective amount of the
12 synchronized interest multiplied by 106.52 lag days calculated on RLM-5,
13 page 2 and in RUCO's Havasu work papers.

14
15 Revenue Lead/Lag Days Correction

16 Q. Please discuss RUCO's adjustment to the Company's revenue lag days.

17 A. The Company calculated a range of 46.25 to 50.13 lag days associated
18 with the amount of time between the mid-point of the service period and
19 when the Company receives payment for the water service. However,
20 RUCO performed a revenue lead/lag analysis for each district and
21 determined an adjustment was necessary to restate the Company's
22 revenue lag as shown in RUCO's respective districts work papers.

1 Q. What method and/or analysis did RUCO perform in determining its
2 recommended revenue lag days for each district?

3 A. In RUCO data request 8.01, RUCO requested fifteen copies of actual bills
4 in each district in this case for various customer classifications
5 (proportionately by classifications by number of customers served in that
6 class). By utilizing this sample of bills, RUCO was able to ascertain the
7 service period, therefore the mid-point service period was established, and
8 the bill date, which establishes the billing lag days. The pay lag is
9 determined by adding the number of days from the bill date to the due
10 date. The total revenue lag days are the sum of the 1) mid-point service
11 period, 2) billing lag days, and 3) pay lag days. These calculations are
12 shown in RUCO's work papers. This accurately reflects the districts' cash
13 working capital needs.

14
15 Q. Did RUCO compare its revenue lead/lag days with previous Arizona-
16 American lead/lag revenue days when the Company provided a lead/lag
17 study to determine the reasonableness of the Company's proposed total
18 revenue lag days as filed?

19 A. Yes. RUCO's analysis determined that the Company's pay lag days were
20 excessive by approximately eight to ten days for each district. Previous
21 Arizona-American lead/lag studies for the revenue lag days are nearly
22 identical to RUCO's in this case (See RUCO Exhibit 1).

1 Q. Did RUCO compare other Arizona utilities to determine the
2 reasonableness of the Company's proposed total revenue lag days as
3 filed?

4 A. Yes. I reviewed several other privately held and investor owned utility
5 companies in Arizona. The Arizona Water Company - Western Group
6 lead/lag study (Commission Decision No. 68302), a recent Southwest Gas
7 rate filing, and an Arizona Public Service Company ("APS") previous rate
8 application to make comparisons with what Arizona-American filed in this
9 case. Arizona Water Company's Western Group consisted of five
10 separate water systems. Each system was calculated independently with
11 revenue lags ranging from 27.56 to 29.24 for an overall average of 27.80
12 revenue lag days (Commission Decision No. 68302 approved these lag
13 days). Southwest Gas and APS's lead/lag studies resulted in revenue
14 lags of 40.62 and 41.81 days respectively.

15
16 RUCO's comprehensive analysis determined that the revenue lead/lag
17 days as computed by the Company are excessive.

18
19 Property Tax Lead/Lag Days Correction

20 Q. Please explain the adjustment RUCO made to the Company's property tax
21 expense lead/lag days.

22 A. This adjustment was necessary to correct the lead/lag days the Company
23 calculated for property tax expense as authorized in Decision No. 69440

1 to 212.50 days. The Company used a payment date three-weeks earlier
2 than the taxes were due. That one correction results in approximately the
3 same lag days as RUCO calculates.

4
5 RUCO takes issue with one other aspect of the Company's method used
6 to calculate property taxes. AZ-AM is using the date it actually made
7 payment as opposed to the date before the taxes become delinquent.
8 The Company's use of calculating from the midpoint of the service period
9 to the payment date reduces the lag days and thereby artificially increases
10 the need for cash working capital. The Commission should reject this.
11 Allowance of such a method would discourage effective cash
12 management because a regulated/monopoly utility would be assured that
13 ratepayers through cash working capital allowances would compensate
14 such inefficiencies in cash management. Every Arizona company, public
15 or private, and individual is required to pay Arizona property tax on the
16 same basis and dates. There are no deviations between any for-profit
17 company and/or individual.

1 Q. What adjustment is necessary to correct the lag days associated with the
2 Company's property tax lag day calculation?

3 A. RUCO recommends the use of 212.50 lag days¹ rather than the
4 Company's 201 days. In Commission Decision No. 68302, Arizona Water
5 Company utilized 212 lag days for property tax expense. Southwest Gas
6 and APS used 211 lag days and 213 respectively in recent filed rate cases
7 with the Commission.

8
9 Q. What was RUCO's total adjustment to working capital?

10 A. RUCO's total working capital adjustments reduce the seven rate bases by
11 a total of \$2,881,577 as shown on the respective Schedule RLM-5, page 1
12 of 2. Excluding PV, the adjustment for each district is shown below:

13	Agua Fria	\$ 1,318,023	Havasu	\$ 57,366
14	Mohave Water	\$ 311,647	Mohave WW	\$ 65,685
15	Sun City West	\$ 486,364	Tubac	\$ 24,455

16
17 Q. Please explain RUCO's PV rate base adjustment #6 for deferred assets.

18 A. RUCO's adjustment #6 for PV is the equivalent of all the other districts
19 rate base adjustment #5 as was discussed earlier. I will repeat the reason
20 for this adjustment for the sake of simplicity.

21

¹ This number will vary insignificantly depending on the midpoint utilized (i.e., June 30th or July 1st) and due dates employed (i.e., April 30th or May 1st). The range should be 211 – 213.5.

1 RUCO's rate base adjustment #6 for PV conforms with the Company's
2 response to Staff's data request GWB 17.1. The Company concluded
3 upon further investigation of the details that the amount for deferred debits
4 as filed in its rate application was incorrect. The Company provided a
5 spreadsheet updating the new calculations for deferred debits in each
6 district.

7
8 Q. What adjustment was necessary to properly reflect the new amount of the
9 deferred debits for PV?

10 A. The following adjustment was necessary to decrease Paradise Valley's
11 rate base by \$1,083,637.

12
13 RUCO Rate Base Adjustment #7 – Agua Fria Water District – White Tanks CWIP
14 and Paradise Valley – Working Capital

15 Q. Please discuss the Agua Fria White Tanks CWIP rate base adjustment.

16 A. RUCO witness, William A. Rigsby, addresses this adjustment in his
17 testimony.

18
19 Q. Since RUCO fully explained its working capital adjustment in rate base
20 adjustment #6, what adjustment was necessary for PV to reflect RUCO's
21 recommended level of working capital?

22 A. RUCO recommends reducing the working capital for PV by \$618,037.

1 Q. Does this conclude your direct testimony?

2 A. Yes, it does.

APPENDIX 1

Qualifications of Timothy J. Coley

WORK HISTORY

July 2000 – Present: **RESIDENTIAL UTILITY CONSUMER OFFICE**, Phoenix, Arizona
Public Utilities Analyst V. The Residential Utility Consumer Office (RUCO) is a consumer advocate group providing residential consumers a voice in utility regulation and backed by a professional staff with legal and financial expertise. Responsibilities include: audited, reviewed and analyzed public utility companies various filings; prepared written testimony, schedules, financial statements, and spreadsheet models and analyses. Testified and stand cross-examination before the Arizona Corporation Commission.

January 2000 - April 2000: **JACKSON HEWITT TAX SERVICE**, Phoenix, Arizona
Tax Preparer. Interviewed clients, determined tax situation, and explained how the tax laws benefited them in their specific situation. Ensured that each customer received every deduction that they were entitled. Prepared individual and business income tax returns, which best utilized each specific situation that minimized their tax obligations.

May 1998 - November 1999: **BENEFITS CONSULTING**, Cypress, Texas
Consultant Assistant. The consulting firm specialized in alleged medical claim charges brought against the government of Harris County in Houston, Texas. Assisted in the review, examination, and analysis of the attested charges. Determined if the purported medical claim charges were prudent, customary, and reasonable for the alleged sustained injuries. The firm analyzed cases for both the County's Risk Department and Attorneys Office.

January 1992 - April 1998: **PHOENIX SERVICES**, Villa Rica, Georgia
Owner. Provided landscaping services primarily in a high growth gated community where the Property Owners' Association approved mandated ordinances to be strictly adhered and abided by. Coordinated and supervised all aspects of projects from inception to completion, from master planning to site design to installation.

May 1989 - October 1991: **GEORGIA PUBLIC SERVICE COMMISSION**, Atlanta, GA
Senior Auditor. The Public Service Commission (PSC) was responsible for regulating many intrastate telecommunications, electric, and gas utility industries operating in Georgia. It was the PSC's job to ensure that consumers received adequate and reliable service at reasonable rates. It must also assure the utility companies and investors an opportunity to earn a fair rate of return on prudent investments. The Commission participated significantly in Georgia's economic health and growth. I was promoted to the PSC's Electric/Gas Division where I examined, verified, and analyzed various financial documents, accounting records, reports, ledgers, and statements. In addition, I was assigned to automate the PSC's Electric Division where I utilized a computer application process that I had developed earlier while with the (PSC) Telecommunication Division. I was later ascribed to work in conjunction with the Engineering Department and established a procedure to track and compare costs of operation and maintenance (O&M) expenses of nuclear electric generating plants. This effort determined a comparative price per kilowatt-hour produced that influenced the awareness for the company to control the O&M costs, which benefited the consumer through lower prices.

- Developed computer application system that streamlined audit procedures by 30 – 40%.
- Various other schedules were implemented to track, maintain, and control costs.

GEORGIA PUBLIC SERVICE COMMISSION (continued)

November 1986 - April 1989: **Georgia Public Service Commission**, Atlanta, Georgia **Auditor**. Regulated telecommunications and also oversaw the deregulation process that was currently under way in that industry. Examined and analyzed accounting records to determine financial status of companies and prepared financial reports concerning audit findings. Reviewed data including payroll, time sheets, purchase vouchers, cash receipt ledgers, financial reports, and disbursements. Verified statewide telephone company transaction classifications and documentation.

- Developed computer application utilizing Lotus to completely automate and streamline the entire telecommunication audit process. The results saved 25% in field audit time and produced a product of professional appearance.
- Created, coordinated, and implemented "Operational Project Training" automated procedure-training program. Trained and supervised staff of five auditors.
- Computerized "Desk Audit Analysis" program that identified 11 independent telephone companies in the state of over-earning and resulted in \$4.1M annual savings to the Georgia ratepayers affected.

October 1985 - October 1986: **Georgia Public Service Commission**, Atlanta, Georgia **Junior Auditor**. Assisted in planning and performing telecommunication audit engagements. Examined financial records, internal management control, correspondence, bills, and records of services delivered in order to verify or recommend compliance with company specifications contained in contracts, agreements, regulations, and/or laws.

- As a special project, I was assigned to analyze the results of a survey designed to evaluate "Interest in Organizing a Multi-State Nuclear Management Review Group" by the Director of Utilities. Wrote the draft and findings for the speech that was presented to all participatory commissions.

PROFESSIONAL MEMBERSHIPS

- Elected Member of the National Honor Society for Public Affairs and Administration.
- Active Member of Delta Sigma Pi - Professional Business Fraternity.

SPECIAL TRAINING AND CERTIFICATES

- The Graduate School of Business Administration - Michigan State University; completed the Annual Regulatory Studies Program of the National Association of Regulatory Utility Commissioners.
- Completed Graduate Exit Paper on "Deregulation of the Electric Industry".
- Attended Eastern Utility Rate School in 2000 and 2005.

EDUCATION

- Currently enrolled at Arizona State University - West in the Post Baccalaureate Graduate Certificate Program in Accountancy with two courses remaining.
- Master of Public Administration, State University of West Georgia, 1997, GPA 3.5.
- BS Business Management & Administration, Minor in Economics, Sorrel School of Business, Troy State University, 1985.
- AA Business Administration, Miles Community College, 1981.

RESUME OF PUBLIC UTILITY RATE CASES & AUDITS PARTICIPATION

Residential Utility Consumer Office For Years 2000 To Present

Arizona-American Water Company – Docket No. WS-01303A-05-0405

Arizona Public Service Co. – Docket No. E-01345A-03-0437

Tucson Electric Power Company – Docket No. E-01933A-04-0408

UniSource Merger – Docket No. E-04230A-03-0933

Arizona-American Water Company – Docket No. WS-01303A-02-0867

Arizona Water Company (Eastern Group) – Docket No. W01445A-02-0619

Litchfield Park Service Company – Docket Nos. W-01427A-01-0487 &
SW-01428A-01-0487

Arizona Water Company (Northern Group) – Docket No. W-01445A-00-0962

Rio Verde Utilities, Inc. – Docket Nos. W-02156A-00-0321 &
SW-02156A-00-0323

Arizona-American Water Company (Paradise Valley) –
Docket Nos. W-01303A-05-0405 &
W-01303A-05-0910

Arizona-American Water Company (Mohave District) –
Docket No. WS-01303A-06-0014

Arizona-American Water Company (Sun City & Sun Cit West Wastewater) –
Docket No. WS-01303A-06-0491

Arizona-American Water Company - Docket No. W-01303A-07-0209

Chaparral City Water Company – Docket No. W-02113A-07-0551

Georgia Public Service Commission For Years 1985 – 1991

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

Georgia Power Company

Trenton Telephone Company

Fairmount Telephone Company

Ellijay Telephone Company

GTE, Inc.

ALL-TEL Telephone Company

Citizens Utilities Co.

Ball Ground Telephone Company

Lanett Telephone Company

Brantley Telephone Company

Blue Ridge Telephone Company

Waverly Hall Telephone Company

St. Marys Telephone Company

Darien Telephone Company

Statesboro Telephone Company

Statesboro Telephone Co-op

Wilkes Telephone Company

RUCO EXHIBIT 1

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY WATER DISTRICT
 TEST YEAR ENDED DECEMBER 31, 2007
 RATE BASE ADJ. #7 - WORKING CAPITAL
 REVENUE LAG ANALYSIS

DOCKET NOS. SW & W-01303A-08-0227

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	SERVICE PERIOD								
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	BILL DATE	BILLING LAG	DUE DATE	PAY LAG	REVENUE LAG DAYS	AMOUNT OF BILL
1	1/24/2007	2/23/2007	15.00	2/28/2007	5.00	3/20/2007	20.00	40.00	\$1,891.35
2	6/12/2007	7/12/2007	15.00	7/17/2007	5.00	8/6/2007	20.00	40.00	299.85
3	4/2/2007	5/1/2007	14.50	5/4/2007	3.00	5/24/2007	20.00	37.50	342.41
4	2/12/2007	3/8/2007	12.00	3/13/2007	5.00	4/2/2007	20.00	37.00	45.95
5	4/20/2007	5/18/2007	14.00	5/23/2007	5.00	6/12/2007	20.00	39.00	114.94
6	9/11/2007	10/9/2007	14.00	10/12/2007	3.00	11/1/2007	20.00	37.00	1,116.28
7	11/19/2007	12/20/2007	15.50	12/26/2007	6.00	1/15/2008	20.00	41.50	39.63
8	3/13/2007	4/12/2007	15.00	4/18/2007	6.00	5/8/2007	20.00	41.00	447.98
9	10/11/2007	11/12/2007	16.00	11/15/2007	3.00	12/5/2007	20.00	39.00	576.57
10	9/10/2007	10/8/2007	14.00	10/11/2007	3.00	10/31/2007	20.00	37.00	510.92
11	4/16/2007	5/14/2007	14.00	5/17/2007	3.00	6/6/2007	20.00	37.00	25.43
12	8/6/2007	9/4/2007	14.50	9/7/2007	3.00	9/27/2007	20.00	37.50	1,545.76
13	12/20/2006	1/18/2007	14.50	1/24/2007	6.00	2/13/2007	20.00	40.50	14.56
14	9/7/2007	10/5/2007	14.00	10/10/2007	5.00	10/30/2007	20.00	39.00	66.31
15	11/12/2007	12/13/2007	15.50	12/18/2007	5.00	1/7/2008	20.00	40.50	83.05
16									
17									
18									
19									
20									
AVERAGES			14.50		4.40		20.00	=	38.90

REFERENCES:

ARIZONA AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RATE BASE ADJUSTMENT #4 - WORKING CAPITAL
 LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) EXPENSE PER COMPANY	(B) EXPENSE PER APPLIC.	(C) RUCO ADJUSTMENTS	(D) RUCO ADJUSTED	(E) (LEAD)/LAG DAYS	(F) DOLLAR DAYS
1	PURCHASED WATER	\$ 38,660	\$ 812,312	-	\$ 812,312	38.1	\$ 30,961,085
2	PURCHASED POWER	616,955	551,393	-	559,215	12.0	6,710,575
3	COMPANY LABOR	605,247	1,451,276	22,202	1,473,478	30.0	44,204,336
4	GOODS AND SERVICES	1,575,773	-	-	-	-	-
5	MATERIALS ISSUED FROM STORES	-	-	-	-	-	-
6	PBOP	25,384	87,862	-	87,862	-	-
7	GROUP LIFE INSURANCE	131,484	111,869	-	111,869	(6.5)	(727,149)
8	INJURIES DAMAGES & OTHER INS. PROVISIONS	-	-	-	-	-	-
9	PROVISIONS FOR UNCOLLECTIBLES	-	-	-	-	-	-
10	FRANCHISE REQUIREMENTS	-	-	-	-	-	-
11	FEDERAL INCOME TAX	260,000	322,999	(71,319)	251,680	37.0	9,312,172
12	FICA	49,370	42,168	(9,114)	33,054	12.0	396,845
13	FUTA	608	4,410	(2,664)	1,746	73.5	128,346
14	STATE CORPORATION FRANCHISE TAX	-	-	-	-	-	-
15	STATE UNEMPLOYMENT INSURANCE TAX	775	7,993	(4,828)	3,165	76.0	240,540
16	STATE AUTOMOBILE LICENSE FEES	-	-	-	-	-	-
17	CAL-AM INVOICES	-	-	-	-	-	-
18	PROPERTY TAXES	213,000	213,241	-	213,241	213.5	45,526,954
19	SERVICE COMPANY	-	-	-	-	(15.0)	-
20	RENT	66,063	43,943	13,408	57,351	(8.5)	(487,484)
21	OTHER	28,467	28,467	-	28,467	30.0	854,010
22	PENSION	35,783	33,772	674	34,446	-	-
23	INTEREST	-	-	374,178	374,178	107.2	40,113,522
24	TOTAL OPERATING EXPENSES	\$ 3,047,569	\$ 3,711,705	\$ 330,359	\$ 4,042,064	-	\$ 177,233,553
25	EXPENSE LAG					43.8	
26	REVENUE LAG					38.30	
27	NET LAG					(5.5)	
28	CASH WORKING CAPITAL						

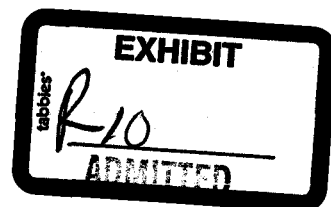
REFERENCES:

Col. A, Line 28 = (Col. C, Line 24/365) X Col. D, Line 27
 Col. B: RLM-2
 Col. C = Col. A + Col. B
 Col. D, Line 25 = Col. E, Line 24 / Col. C, Line 24
 Col. D, Line 26 - See RUCO Schedule TJC-5, Page 5 of 5 - Revenue Lag Calculation
 Col. D, Line 27 = Col. D, Line 26 - Col. D, Line 25

EXHIBIT JMR-RB4

Corrected Lead/Lag Study

Line No.		Test Year Adjusted Results	Revenue Lag Days ³	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required
1	OPERATING EXPENSES						
2	✓ Labor	\$ 527,708	38.3000	12.0000 ✓	26.3000	0.0721	\$ 38,024
3	✓ Fuel & Power	827,908	38.3000	38.1148 ✓	0.1852	0.0005	420
4	✓ Chemicals	16,499	38.3000	30.0000 ✓	8.3000	0.0227	375
5	/ Management Fees	554,302	38.3000	(3.8800) /	42.1800	0.1156	64,056
6	/ Group Insurance	117,720	38.3000	(4.6445) /	42.9445	0.1177	13,850
7	/ Pensions	26,625	38.3000	45.0000 /	(6.7000)	(0.0184)	(489)
8	/ Insurance Other Than Group	48,923	38.3000	45.0000 /	(6.7000)	(0.0184)	(898)
10	/ Rents	64,878	38.3000	(10.6818)	48.9818	0.1342	8,706
11	/ Depreciation & Amortization	799,234	38.3000	-	38.3000	0.1049	83,865
12	/ Other Operating Expenses ¹	655,707	38.3000	30.0000 /	8.3000	0.0227	14,911
13	TAXES						
14	/ Taxes Other than Income	42,405	38.3000	26.3188	11.9812	0.0328	1,392
15	Property Taxes	216,214	38.3000	177.5000	(139.2000)	(0.3814)	(82,458)
16	Income Tax ²	420,233	38.3000	37.0000	1.3000	0.0036	1,497
17	RETURN						
18	Interest on Debt ⁴	520,071	38.3000	107.2300	(68.9300)	(0.1888)	(98,215)
19	/ Return on Equity	668,485	38.3000	-	38.3000	0.1049	70,145
20							
21							
22							
23							
24	WORKING CASH REQUIREMENT						\$ 115,182
25							
26							
27	¹ All other Operating Expenses are assumed to be paid by the 15th of the month following the receipt of goods and services.						
28	² All proposed rates.						
29	³ Per direct testimony of RUCO witness Coley.						
30	⁴ Expense lag days per direct testimony of RUCO witness Coley.						



ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

SURREBUTTAL TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 3, 2009

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1 **INTRODUCTION**

2 Q. Please state your name for the record.

3 A. My name is Timothy J. Coley.

4
5 Q. Have you previously filed testimony regarding this docket?

6 A. Yes, I have. I filed direct testimony in this docket on January 9, 2009.

7
8 Q. What is the purpose of your surrebuttal testimony?

9 A. My surrebuttal testimony will address the Company's rebuttal comments
10 pertaining to adjustments I recommended in my direct testimony.

11
12 **SUMMARY OF ADJUSTMENTS**

13 Q. What areas will you address in your surrebuttal testimony?

14 A. My surrebuttal testimony will address RUCO's recommended rate base
15 adjustments for the following Arizona-American ("Company") water and
16 wastewater districts:

17 AGUA FRIA WATER DISTRICT

- 18 1. Surrebuttal Adjustment No. 1 – Post Test Year Plant;
19 2. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
20 3. Revised Direct Adjustment No. 2 – Contributions In Aid of
21 Construction ("CIAC") Associated with Construction Work In
22 Progress ("CWIP");

4. Revised Direct Adjustment No. 3 – Accumulated Amortization of CIAC;
5. Revised Direct Adjustment No. 4 – Utility Plant In Service (“UPIS”);
6. Revised Direct Adjustment No. 5 – Deferred Debits;
7. Revised Direct Adjustment No. 6 – Working Capital;
8. Revised Direct Adjustment No. 7 – White Tanks CWIP;
9. Rate Design and Proof of Recommended Revenue; and
10. Typical Residential Bill Analysis.

HAVASU WATER DISTRICT

1. Surrebuttal Adjustment No. 1 – Remove and Transfer Gateway Plant;
2. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
3. Revised Direct Adjustment No. 2 – CIAC Associated with CWIP;
4. Revised Direct Adjustment No. 3 – Not Used;
5. Revised Direct Adjustment No. 5 – Deferred Debits;
6. Revised Direct Adjustment No. 6 – Working Capital;
7. Rate Design and Proof of Recommended Revenue; and
8. Typical Residential Bill Analysis.

MOHAVE WASTEWATER DISTRICT

1. Surrebuttal Adjustment No. 1 – Transfer and Add Gateway Plant;
2. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
3. Revised Direct Adjustment No. 2 – CIAC Associated with CWIP;

- 1 4. Revised Direct Adjustment No. 3 – Not Used;
- 2 5. Revised Direct Adjustment No. 4 – Remove 50% of Wishing Well
- 3 Treatment Plant;
- 4 6. Revised Direct Adjustment No. 5 – Deferred Debits;
- 5 7. Revised Direct Adjustment No. 6 – Working Capital;
- 6 8. Rate Design and Proof of Recommended Revenue; and
- 7 9. Typical Residential Bill Analysis.

8

9 MOHAVE WATER DISTRICT

- 10 1. Surrebuttal Adjustment No. 1 – Transfer and Add Gateway Plant;
- 11 2. Surrebuttal Adjustment No. 2 – Big Bend Reservoir Actual Cost;
- 12 3. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
- 13 4. Revised Direct Adjustment No. 2 – CIAC and Advances In Aid of
- 14 Construction (“AIAC”) Associated with CWIP;
- 15 5. Revised Direct Adjustment No. 3 – Accumulated Amortization of CIAC;
- 16 6. Revised Direct Adjustment No. 4 –Not Used;
- 17 7. Revised Direct Adjustment No. 5 – Deferred Debits;
- 18 8. Revised Direct Adjustment No. 6 – Working Capital;
- 19 9. Rate Design and Proof of Recommended Revenue; and
- 20 10. Typical Residential Bill Analysis.

1 PARADISE VALLEY WATER DISTRICT

- 2 1. Surrebuttal Adjustment No. 1 – Pump Retirement;
- 3 2. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
- 4 3. Revised Direct Adjustment No. 2 – CIAC Associated with CWIP;
- 5 4. Revised Direct Adjustment No. 3 – Post Test Year Plant;
- 6 5. Revised Direct Adjustment No. 4 – Accumulated Depreciation;
- 7 6. Revised Direct Adjustment No. 5 – Post Test Year Plant;
- 8 7. Revised Direct Adjustment No. 6 – Deferred Debits;
- 9 8. Revised Direct Adjustment No. 7 – Working Capital;
- 10 9. Rate Design and Proof of Recommended Revenue; and
- 11 10. Typical Residential Bill Analysis.

12

13 SUN CITY WEST WATER DISTRICT

- 14 1. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
- 15 2. Revised Direct Adjustment No. 2 – CIAC Associated with CWIP;
- 16 3. Revised Direct Adjustment No. 3 – Post Test Year Plant;
- 17 4. Revised Direct Adjustment No. 4 – Utility Plant In Service (“UPIS”);
- 18 5. Revised Direct Adjustment No. 5 – Deferred Debits;
- 19 6. Revised Direct Adjustment No. 6 – Working Capital;
- 20 7. Rate Design and Proof of Recommended Revenue; and
- 21 8. Typical Residential Bill Analysis.
- 22
- 23

TUBAC WATER DISTRICT

1. Revised Direct Adjustment No. 1 – Accumulated Depreciation;
2. Revised Direct Adjustment No. 2 – AIAC Associated with CWIP;
3. Revised Direct Adjustment No. 3 – Not Used;
4. Revised Direct Adjustment No. 4 – Not Used;
5. Revised Direct Adjustment No. 5 – Deferred Debits;
6. Revised Direct Adjustment No. 6 – Working Capital;
7. Rate Design and Proof of Recommended Revenue; and
8. Typical Residential Bill Analysis.

To support the adjustments in my surrebuttal testimony, I am presenting Surrebuttal Schedules numbered SURR RLM-1, pages 1 and 2, SURR RLM-2A, SURR RLM-2, SURR RLM-6 through SURR RLM-9, SURR RLM-13, Rate Design Surrebuttal Schedules SURR RLM-RD1 and RLM-RD2, which are filed concurrently in my surrebuttal testimony.

ORIGINAL COST RATE BASE (“OCRB”) ADJUSTMENTS

RUCO Surrebuttal OCRB Adjustment No. 1 – The Purpose of This Adjustment Varies Depending to Which District It Applies

NOTE: THIS ADJUSTMENT AFFECTS ONLY AGUA FRIA, HAVASU, MOHAVE, AND PARADISE VALLEY WATER DISTRICTS AND MOHAVE WASTEWATER DISTRICT.

1 Q. Please explain your surrebuttal rate base adjustment #1 to the Agua Fria
2 Water District.

3 A. As shown on Schedule SURR RLM-2, this is a conforming adjustment,
4 which accepts the Company's realization of actual costs incurred for the
5 construction of the Sierra Montana 2.2 MG Reservoir from an earlier
6 estimated amount. This adjustment reduces UPIS by \$252,470.

7
8 Q. Please explain your surrebuttal rate base adjustment #1 to the Havasu
9 Water District.

10 A. This is a conforming adjustment the Company proposed in its rebuttal
11 testimony. It moves the water and wastewater plant associated with the
12 Gateway facilities from Havasu to the Mohave Water and Wastewater
13 Districts. Gateway is geographically located half way between the Havasu
14 District and the Mohave Districts. The plant was recorded on the books of
15 Havasu but is in the Certificate of Convenience & Necessity ("CC&N") with
16 the Commission as belonging to the Mohave Water and Wastewater
17 Districts.

18
19 Q. What adjustment is necessary to move the Havasu plant to its proper
20 CC&N area of the Mohave Water and Wastewater Districts?

21 A. It is necessary to reduce Havasu's UPIS by \$816,311. A companion
22 adjustment to reduce the associated accumulated depreciation balance by

1 \$14,000 is also necessary. These adjustments are shown on Surrebuttal
2 Schedule RLM-2.

3
4 Q. Please explain your surrebuttal rate base adjustment #1 to the Mohave
5 Wastewater District.

6 A. This adjustment is the flip side of the Gateway plant discussed above for
7 the Havasu Water District. Rather than removing UPIS, it is necessary to
8 add plant to both the Mohave Water and Wastewater Districts accordingly.

9
10 Q. What adjustment does RUCO make to Mohave Wastewater to properly
11 book the Gateway plant assets in its CC&N?

12 A. It is necessary to increase the Mohave Wastewater District's UPIS by
13 \$94,978. A companion adjustment to increase the associated
14 accumulated depreciation balance by \$7,621 is also necessary. These
15 adjustments are shown on Surrebuttal Schedule RLM-2.

16
17 Q. What adjustment did RUCO make to the Mohave Water District to account
18 for the Gateway plant assets and accumulated depreciation?

19 A. RUCO increased both Mohave Water's UPIS and accumulated
20 depreciation by \$721,333 and \$45,790 respectively. This adjustment
21 completes the transfer of the Gateway plant assets from Havasu to the
22 proper CC&N(s). These adjustments are shown on Surrebuttal Schedule
23 RLM-2.

1 Q. Please explain your surrebuttal rate base adjustment #1 to the Paradise
2 Valley Water District.

3 A. This is a conforming adjustment, which accepts the Company's proposal,
4 to properly book retirements to Paradise Valley rather than the Sun City
5 and Sun City West Water Districts. These retirements resulted from the
6 Company building new arsenic treatment plant in Paradise Valley for
7 which tanks and pumps were retired in the process.

8
9 Q. What adjustment does RUCO make to account for the retirements of the
10 tanks and pumps?

11 A. RUCO reduced both UPIS and accumulated depreciation by \$180,916
12 and \$120,802. These adjustments are shown on Surrebuttal Schedule
13 RLM-2.

14
15 RUCO Surrebuttal OCRB Adjustment No. 2 – Big Bend Acres Reservoir

16 NOTE: THIS ADJUSTMENT AFFECTS ONLY MOHAVE WATER
17 DISTRICT.

18 Q. Please explain your surrebuttal rate base adjustment #2 to the Mohave
19 Water District.

20 A. This adjustment updates the estimated post test year plant cost to actual
21 costs. The costs are associated with the construction of the 0.25 MG Big
22 Bend Acres Reservoir.

1 Q. What adjustment did RUCO make to update the estimated cost to actual
2 costs?

3 A. RUCO increased Mohave Water's UPIS by \$32,395. This adjustment is
4 shown on Surrebuttal Schedule RLM-2.

5
6 RUCO Direct OCRB Adjustment No. 1 – Accumulated Depreciation

7 NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS.

8 Q. Did the Company accept RUCO's OCRB adjustment #1 to accumulated
9 depreciation for all the Company's districts?

10 A. No.

11
12 Q. On what grounds did the Company reject RUCO's adjustment to
13 accumulated depreciation?

14 A. The Company gave the following reasons as follows:

15 RUCO inappropriately recomputed depreciation expense for
16 all districts claiming that the only acceptable methods of
17 depreciation are mid-year or mid-month. RUCO is incorrect.
18 Arizona-American changed from the mid-year method to the
19 end of the month method as of January 2003. The
20 Company's depreciation methodology is accepted by our
21 outside auditors and complies with all Sarbanes-Oxley
22 requirements. All three methods give the same results over
23 the life of the asset...RUCO would improperly substitute a
24 fictional depreciation expense.
25

26 Q. Does RUCO agree with the Company's assertion regarding the
27 accumulated depreciation adjustment?

28 A. Yes and no.

1 Q. Please explain to which part of the Company's claim above that RUCO
2 agrees with and to which part of the Company's assertion that it does not
3 agree with?

4 A. RUCO stated in its direct testimony that "RUCO's opinion regarding
5 Generally Accepted Accounting Principles ("GAAP") does not recognize a
6 full-month depreciation methodology as being an accepted depreciation
7 convention method." After RUCO further researched the subject, a full
8 month depreciation expense for plant additions, adjustments, and
9 retirements is an acceptable depreciation method recognized by GAAP
10 "so long as the method is applied *consistently*."¹ However, the Company
11 has failed to be consistent in its depreciation methodology, as GAAP
12 requires.

13
14 Q. Why does RUCO claim that the Company has failed to be consistent in its
15 use of a depreciation methodology as required by GAAP?

16 A. In the Company's last mega-case (Commission Decision 67093 dated
17 June 30, 2004), the Commission authorized the following in its statement:

18 Arizona-American already employs a half month convention,
19 whereby a plant item is treated as being placed in service on
20 the 15th of the month it becomes operational. (Exh. A-21 at
21 7). The Company agrees with RUCO that a half-year
22 convention should be utilized absent a reason to depart from
23 the usual methodology, but asserts that its use would be
24 improper here. The Company contends that there is no
25 reason to be less accurate than the Company's system
26 allows for...

¹ John Wiley & Sons, Inc., Intermediate Accounting, D. Kieso, J. Weygandt, T. Warfield, 2001, page 559.

1 Q. Isn't RUCO utilizing the same depreciation methodology that the Company
2 asserted in Decision No. 67093?

3 A. Yes.

4
5 Q. Should an entity seek authorization and permission from its regulatory
6 body or federal agency before changing its depreciation method?

7 A. Yes. Changing depreciation methods can increase or decrease rates for
8 ratepayers in this instance. It also has an impact on taxable income filed
9 with the Internal Revenue Service ("IRS"). The IRS requires an entity to
10 seek written permission prior to changing its depreciation methodology
11 when filing its income taxes. RUCO is of the opinion that the Company
12 should have been required to do the same with the Commission through
13 an accounting order etc. because it must be consistent with the method
14 utilized over time.

15
16 Q. What is RUCO's overall net accumulated depreciation adjustment for the
17 seven systems filed by the Company in this case?

18 A. The overall net adjustment reduces accumulated depreciation by
19 \$1,102,677, which is in the Company's favor as shown on Surrebuttal
20 Schedule RLM-2.

21
22 RUCO Direct OCRB Adjustment #2 – AIAC & CIAC Associated with CWIP

23 NOTE: THIS ADJUSTMENT AFFECTS ALL DISTRICTS.

1 Q. Does RUCO agree with the Company's adjustment to remove the AIAC
2 and CIAC that it claims is CWIP related?

3 A. No. Arizona has historically excluded CWIP in rate base and historically
4 treated CIAC as a deduction from rate base. Thus, under RUCO's
5 recommendations, Arizona-American is being afforded the same rate base
6 treatment for these two items that every other utility in Arizona is afforded.
7 These are fungible funds that cannot be distinguished from other sources.
8 I discussed this adjustment fully in my direct testimony.

9
10 Q. What is RUCO's total adjustment for the seven districts in this case to
11 reverse the Company's proposal to increase rate base by excluding the
12 AIAC and CIAC booked balances?

13 A. RUCO's total adjustment for the seven districts reduces rate base by
14 \$4,254,861 as shown on Surrebuttal Schedules RLM-2 respectively.

15
16 RUCO Direct OCRB Adjustment #3 – Various Conforming Adjustments
17 Pertaining to Different Districts

18 NOTE: THIS ADJUSTMENT AFFECTS AGUA FRIA, MOHAVE,
19 PARADISE VALLEY, AND SUN CITY WEST WATER DISTRICTS.

20 Q. Please explain RUCO rate base adjustment #3 as it pertains to Agua Fria
21 and Mohave Water Districts.

22 A. This is a specific adjustment for Agua Fria and Mohave Water Districts to
23 conform with the Company's response to Staff data request GTM 18.7, 2nd

1 Supplement. The Company stated, "An error was made to Mohave Water
2 by reducing CIAC for a disbursement which belonged in the Agua Fria
3 Water district." The CIAC was correctly transferred but no corresponding
4 adjustment had been made to correct the accumulated amortization
5 balance for the two districts. This adjustment decreases Agua Fria's CIAC
6 balance by \$28,016 and increases Mohave Water CIAC by \$27,517.

7
8 Q. Please discuss RUCO rate base adjustment #3 to Paradise Valley.

9 A. This is a specific adjustment for the PV Water District to conform with the
10 Company's response to RUCO data request 1.34. It relates to the
11 removal of post-test-year plant adjustment, Well #12, which the Company
12 later removed from this rate case. The Company had never received the
13 proper permits to begin construction. It reduces post test-year plant by
14 \$2,109,032.

15
16 Q. Please discuss RUCO rate base adjustment #3 to Sun City West Water
17 District.

18 A. This is a specific adjustment for the Sun City West Water District to
19 conform with the Company's response to Staff data request DH 4.3. The
20 Company mistakenly booked a \$70,000 retirement to Sun City West that
21 should have been recorded on the Paradise Valley books. Another
22 \$6,672 of retirements were incorrectly booked to Sun City West that
23 should have been booked to Sun City.

RUCO Direct OCRB Adjustment #4 – Various Adjustments Pertaining to Different

Districts

NOTE: THIS ADJUSTMENT AFFECTS AGUA FRIA WATER, MOHAVE
WASTEWATER, PARADISE VALLEY WATER, AND SUN CITY WEST
WATER DISTRICTS.

Q. Did the Company accept RUCO rate base adjustment #4 for the Agua Fria
Water District?

A. Yes. This adjustment increases rate base by \$18,581 for two projects that
were actually in the Agua Fria Water District but were mistakenly booked
to the Sun City West Water District. A companion adjustment was also
accepted by the Company to increase accumulated depreciation by
\$2,375.

Q. Did the Company accept RUCO rate base adjustment #4 for the Mohave
Wastewater District to remove 50 percent of the Wishing Well Treatment
Plant as excess capacity?

A. The Company is not entirely agreeable to remove 50 percent of the
Wishing Well Treatment Plant as excess capacity. The Company stated
that the project was both an upgrade and expansion of the old plant. The
Company adds that the total amount associated with the expansion to 0.5
MGD is \$1,405,233. The Company suggests, "If the Commission were
inclined to accept RUCO's recommendation to defer 50% of the costs to

1 serve additional customers, that would be only \$702,616." RUCO will
2 investigate that claim further and will address that issue at a later date.
3

4 Q. What adjustment did RUCO make to remove 50 percent of the total cost of
5 the Wishing Well Treatment Plant project?

6 A. This adjustment is an updated amount that includes 50 percent of the
7 estimated cost of \$3,932,080 that the Company sought in its rate
8 application plus 50 percent of the Company's rebuttal adjustment of
9 \$343,959 to true up to the project's actual cost. RUCO's surrebuttal
10 adjustment reduces UPIS by \$2,138,020 for excess capacity as shown on
11 Surrebuttal Schedule RLM-2.
12

13 Q. Did the Company accept RUCO's rate base adjustment #4 to decrease
14 accumulated depreciation by \$456,414 in the Paradise Valley Water
15 District?

16 A. No. RUCO witness, Mr. Moore, made this adjustment. After a discussion
17 with him, Mr. Moore said the leading causes for the adjustment was
18 primarily due to the different depreciation rates utilized by the Company
19 and RUCO. The mid-month depreciation convention employed by RUCO
20 also leads to some of the discrepancies between the Company and
21 RUCO. Mr. Moore stated he made some corrections that Company
22 witness, Ms. Gutowski, had pointed out since RUCO filed its direct

1 testimony. Thus, this surrebuttal adjustment is a different amount after
2 making those corrections to its direct adjustment.

3
4 Q. Does the Company agree with RUCO's rate base adjustment #4 that
5 removes plant and accumulated depreciation from Sun City West Water
6 District that was attributable to the Agua Fria Water District?

7 A. Yes, with minor calculations. RUCO accepts the calculation that the
8 Company suggests.

9
10 RUCO Direct OCRB Adjustment #5 – Deferred Debits with the Exception of
11 Paradise Valley

12 NOTE: THIS ADJUSTMENT AFFECTS ALL WATER AND
13 WASTEWATER DISTRICTS EXCEPT PARADISE VALLEY.

14 Q. Does the Company agree with RUCO's rate base adjustment #4 that
15 corrects the deferred debit balances?

16 A. Yes. These are conforming adjustments that derived from a recalculation
17 by the Company after filing its rate application.

18
19 Q. What adjustments were necessary to properly reflect the new amounts for
20 the deferred debits?

21 A. The following adjustments were necessary to increase (decrease) rate
22 base in the amounts below:

23 Agua Fria (\$ 3,321,116) Havasu (\$ 145,701)

Mohave Water (\$ 1,649,972)	Mohave WW	\$ 7,701
Sun City West \$ 892,284	Tubac	(\$51,122)

RUCO Direct OCRB Adjustment #5 – Paradise Valley Post Test Year Plant

Retirements

NOTE: THIS ADJUSTMENT AFFECTS ONLY PARADISE VALLEY
WATER DISTRICT.

Q. Does RUCO agree with the Company's rebuttal position regarding the
inappropriate retirement adjustment that RUCO makes in its rate base
adjustment #5?

A. Yes. RUCO agrees that the amount would be double counted because
RUCO's rate base adjustment #1 has already accounted for this
retirement adjustment. RUCO removed rate base adjustment #5 in its
surrebuttal testimony and schedules as shown on Surrebuttal Schedule
RLM-2.

RUCO Direct OCRB Adjustment #6 – Working Capital with the Exception of

Paradise Valley

NOTE: THIS ADJUSTMENT AFFECTS ALL WATER AND
WASTEWATER DISTRICTS EXCEPT PARADISE VALLEY.

1 Q. Please address Company witness, Ms. Hubbard, regarding RUCO's
2 lead/lag calculation study.

3 A. Ms. Hubbard discussed what she assumed were errors in RUCO's
4 lead/lag calculations. In some of the instances she was correct. Those
5 errors have been corrected. At other times, what she thought was an
6 error was actually RUCO's very intent in calculating the lead/lag study.

7
8 Q. Please explain what you meant by that was the "intent" of the calculation.

9 A. Ms. Hubbard stated that since I did not include regulatory expense in
10 column C of my lead/lag calculation in "other operating expenses" then it
11 was incorrect. She added, "Therefore the resulting Expense Lag on line
12 18 is incorrect." RUCO deliberately excluded the regulatory expense in
13 the lead/lag calculation. The Commission has historically excluded
14 regulatory expense in lead/lag calculations. Regulatory expenses are
15 treated similar to non-cash items such as depreciation expense. The
16 Company did expend cash to pay for such expenses, but there will be no
17 future expenses because they will be recovered in rates going forward.
18 Therefore, it would be improper to include expenses that have no future
19 cash outlays. Thus, regulatory expenses should not be included in a
20 lead/lag calculation for those reasons. I deliberately excluded the non-
21 cash operating expense of depreciation/amortization and rate case
22 expense as was approved by the Commission in the Company's previous

1 two Paradise Valley decisions and the last Mohave Water and Wastewater
2 decision.

3
4 Q. Did the Company revise its cash working capital request in its rebuttal
5 testimony filing?

6 A. Yes.

7
8 Q. What revisions did the Company make in its rebuttal request for cash
9 working capital?

10 A. The Company made several revisions to its original lead/lag study as filed
11 in the direct rate application. First, the Company updated all expense
12 account balances to its rebuttal position. Second, the Company's revised
13 surrebuttal lead/lag study adopts all the expense lag days that were
14 approved in Commission Decision No. 69440, dated May 1, 2007. That
15 change alone was significant. Third, the Company removed most non-
16 cash items from its lead/lag study, i.e. depreciation and amortization
17 expenses but not regulatory expenses. The Company's lead/lag study
18 now includes interest expense where the original study failed to do so.
19 The Company did not make any changes to its revenue lead/lag days as
20 proposed in its original filing, which RUCO disagrees with and will address
21 later in this section.

1 Q. Does RUCO accept the Company's revised lead/lag study as proposed in
2 its rebuttal filing?

3 A. No. However, RUCO does accept the Company's proposal to use the
4 expense lag days from the previous Mohave rate case (Decision No.
5 69440).

6
7 Q. How much cash working capital had the Company originally requested in
8 its direct rate application?

9 A. The Company originally requested a total of \$3,008,039 for cash working
10 capital, inclusive of all seven districts. The amount for each individual
11 district is shown below:

12					
13	Agua Fria	\$ 1,409,860	Havasu	\$ 102,420	
14	Mohave WW	\$ 58,358	Mohave Water	\$ 367,562	
15	Paradise Valley	\$ 549,034	Sun City West	\$ 480,140	
16	Tubac	\$ 40,665			
17					

18 Q. How much cash working capital is the Company requesting in its rebuttal
19 testimony?

20 A. The Company revised its total cash working capital request to \$471,358,
21 inclusive of all seven districts. The amount for each individual district is
22 shown below:

1	Agua Fria	\$ 60,105	Havasu	\$ 46,992
2	Mohave WW	\$ 425	Mohave Water	\$ 185,707
3	Paradise Valley	\$ 79,326	Sun City West	\$ 77,120
4	Tubac	\$ 21,683		

5

6 Q. Isn't that a significant drop from what the Company had originally
7 requested in its direct rate application?

8 A. Yes. It represents approximately an 84 percent decrease from the amount
9 the Company originally requested in cash working capital. This revised
10 decrease is driven primarily by the inclusion of interest expense and
11 exclusion of non-cash items such as depreciation expense when
12 calculating a lead/lag study.

13

14 Q. Does RUCO have other concerns with the Company's revised lead/lag
15 study?

16 A. Yes.

17

18 Q. What other concerns does RUCO have regarding the Company's revised
19 lead/lag study?

20 A. 1. RUCO believes the revenue lag days are excessive;
21 2. The Company includes regulatory expense as an expense item in
22 other operating expenses in the lead/lag calculation.

23

1 Q. Please discuss RUCO's concerns regarding the revenue lag days being
2 excessive in the Company's lead/lag calculation.

3 A. RUCO will use the Company's Agua Fria Water District to illustrate the
4 concerns RUCO has with the Company's revenue lag days. The total
5 revenue lag days are the sum of the 1) mid-point of the service period –
6 13.5 to 17 days for an average of 15.32 days, 2) billing lag days – 2 to 8
7 days for an average of 4.29 days, and 3) pay lag days – consisting of 20
8 to 21 days for an average of 20.21 days. The average sum of the three
9 components of the revenue lag days is $15.32 + 4.29 + 20.21 = 39.82$ total
10 revenue lag days. These calculations are shown in RUCO's work papers.
11 This accurately reflects the district's cash working capital needs. The
12 Company calculated a range of 46.25 to 50.13 for the seven different
13 districts in this case for revenue lag days. The Company uses 48.94
14 revenue lag days for the Agua Fria District to calculate its lead/lag study.
15 This is the amount of time between the mid-point of the service period and
16 when the customer payment becomes due.

17
18 Q. Did RUCO express its concerns to the Company during the discovery
19 period?

20 A. Yes. RUCO was alerted to the excessive revenue lag days early in the
21 discovery process of its initial analysis of the Company's lead/lag study
22 and issued data request 2.02. The data request questioned the
23 Company's "Service and Billing" lag day study as follows:

Q. Lead/Lag Study Some of the data on the W/P entitled "Service and Billing Lag Agua Fria" appears to be incorrect. For example some lines show billing lags of over 200 days and other lines show negative days for the service lag. If this is incorrect please provide a corrected spreadsheet. If it is correct, please provide an explanation of these anomalies.

A. The tab labeled "Service and Billing Lag Agua Fria" on worksheet 2007 Agua Fria Lead Lag.xls.xls is incorrect. Please see the revised spreadsheet.

The shortened revised spreadsheet is provided below. The entire corrected spreadsheet is nearly 1,800 lines long. This illustration shows the first several lines and the last lines.

Arizona American Water Company
 Test Year Ended December 31, 2007
 Lead/Lag Study

Exhibit
 Schedule
 Page
 Witness:

SERVICE & BILLING LAG AGUA FRIA

Line No.	Route	Revenue Period	Previous Read	Current Read	Billing Date	Service Lag	Billing Lag
1	351	Jan-07	12/23/2006	1/26/2007	1/31/2007	17.00	5.00
2	351	Feb-07	1/26/2007	2/26/2007	2/28/2007	15.50	2.00
3	351	Mar-07	2/26/2007	3/27/2007	3/30/2007	14.50	3.00
4	351	May-07	3/27/2007	4/26/2007	5/1/2007	15.00	5.00
5	351	May-07	4/26/2007	5/24/2007	5/30/2007	14.00	6.00
6	351	Jun-07	5/24/2007	6/25/2007	6/28/2007	16.00	3.00
7	351	Jul-07	6/25/2007	7/26/2007	7/31/2007	15.50	5.00
8	351	Aug-07	7/26/2007	8/27/2007	8/31/2007	16.00	4.00
9	351	Oct-07	8/27/2007	9/26/2007	10/1/2007	15.00	5.00
10	351	Oct-07	9/26/2007	10/25/2007	10/30/2007	14.50	5.00
11	351	Nov-07	10/25/2007	11/27/2007	11/30/2007	16.50	3.00
12	351	Dec-07	11/27/2007	12/21/2007	12/28/2007	12.00	7.00
13	352	Jan-07	12/8/2006	1/11/2007	1/16/2007	17.00	5.00
14	352	Feb-07	1/11/2007	2/8/2007	2/13/2007	14.00	5.00
43	761	Oct-07	9/25/2007	10/24/2007	10/29/2007	14.50	5.00
44	761	Nov-07	10/24/2007	11/26/2007	11/29/2007	16.50	3.00
45	761	Dec-07	11/26/2007	12/20/2007	12/27/2007	12.00	7.00
46	762	Jul-07	6/22/2007	7/26/2007	7/31/2007	17.00	5.00
47	762	Aug-07	7/26/2007	8/27/2007	8/31/2007	16.00	4.00
48	762	Oct-07	8/27/2007	9/26/2007	10/1/2007	15.00	5.00
49	762	Oct-07	9/26/2007	10/25/2007	10/30/2007	14.50	5.00
50	762	Dec-07	10/25/2007	11/29/2007	12/7/2007	17.50	8.00
51	762	Dec-07	11/29/2007	12/21/2007	12/28/2007	11.00	7.00
52	763	Dec-07	11/27/2007	12/21/2007	12/28/2007	12.00	7.00
53							
54				Average		15.13	4.48

1 The Company's revised "Service and Billing" lag day study calculated a
2 mid-point service period of 15.13 days and a billing lag of 4.48 days for a
3 total of 19.61 days = $(15.13 + 4.48)$. That sum is equal to what RUCO
4 calculated (Attached as RUCO Exhibit 1) in its mid-point service period,
5 15.32 days, plus RUCO's calculated billing period, 4.29 days, in its
6 revenue lag calculation for Agua Fria's service and billing lag $(15.32 +$
7 $4.29 = 19.61$ RUCO service and billing lag days).

8
9 Q. Did the Company use the corrected service and billing lags provided to
10 RUCO in data request 2.02 as described in the previous chart and
11 paragraph?

12 A. No. The Company used the service and billing lag days, 10.598 days and
13 10.179 days respectively, from a service and billing lag study that it has
14 admitted was incorrect in RUCO data request 2.02. Arizona-American
15 made the effort to correct the study and provide a revised service and
16 billing lag study and failed to use the corrected lag days in its rebuttal
17 filing.

18
19 Q. How many lag days did the Company and RUCO compute for the third
20 and final component of the revenue lag days, which is the payment lag
21 days?

22 A. The Company computed 28.166 payment lag days and RUCO computed
23 20.21 payment lag days. That's a difference of 7.956 payment lag days.

1 Q. That is a significant difference in payment lag days isn't it?

2 A. Yes. That is the primary difference between RUCO's calculation of total
3 revenue lag days and the Company's because RUCO and the Company's
4 corrected (but not used) service and billing lag days are identical.
5

6 Q. How did the Company compute its payment lag days?

7 A. The Company first computes the average daily balance of accounts
8 receivable of 254 days, which is \$4,727,582. Next, the Company totals
9 the annual revenues that are \$61,263,424. The Company then divides the
10 total annual revenues by 365 days that results in average daily revenues
11 of \$167,845 ($\$61,263,424 / 365 \text{ days} = \$167,845$). Finally, the Company
12 derives its payment lag days of 28.166 by dividing the average daily
13 balance of account receivables by average daily revenues to arrive at the
14 28.166 payment lag days ($\$4,727,582 / \$167,845 = 28.166 \text{ payment lag}$
15 days).
16

17 Q. Does RUCO disagree with the Company's calculation?

18 A. RUCO disagrees with the third calculation that divides the total annual
19 revenues by 365 days, which results in average daily revenues of
20 \$167,845 ($\$61,263,424 / 365 \text{ days} = \$167,845$).
21

1 Q. Explain why RUCO disagrees with the part of the calculation that divides
2 the total annual revenues by 365 days, which results in average daily
3 revenues of \$167,845 ($\$61,263,424 / 365 \text{ days} = \$167,845$).

4 A. If the Company averages 254 days of the daily balances of accounts
5 receivable, it should divide the total annual revenues of \$61,263,424 by
6 the same 254 days (not counting weekends), which results in \$241,195 for
7 the average daily revenues as opposed to the Company's \$167,845. That
8 would match apples to apples rather than apples to oranges.

9
10 Q. What is the result of the payment lag days if the same number of daily
11 balance of accounts receivable (254 days) were used to divide the total
12 annual revenues ($\$61,263,424 / 254 \text{ days}$) rather than the 365 days
13 (counting weekends)?

14 A. The result of dividing the total annual revenues of \$61,263,424 by the 254
15 days equals \$241,195. The last calculation to derive at the payment lag
16 days is to divide the average daily balance of accounts receivable by the
17 average number days of revenue receivable ($\$4,727,582 / \$241,195 =$
18 19.60 payment lag days).

19
20
21
22 ...
23

1 Q. How many payment lag days did RUCO calculate in its revenue lag
2 calculation?

3 A. RUCO's payment lag calculation resulted in a 20.21 lag days compared to
4 the 19.60 payment lag days for Agua Fria as discussed earlier. The
5 difference is minimal.

6
7 Q. What method and/or analysis did RUCO perform in determining its
8 recommended revenue lag days for each district?

9 A. In RUCO data request 8.01, RUCO requested fifteen copies of actual bills
10 in each district in this case for various customer classifications
11 (proportionately by classifications by number of customers served in that
12 class). By utilizing this sample of bills, RUCO was able to ascertain the
13 service period, therefore the mid-point service period was established, and
14 the bill date, which establishes the billing lag days. The pay lag is
15 determined by adding the number of days from the bill date to the due
16 date. The total revenue lag days are the sum of the 1) mid-point service
17 period, 2) billing lag days, and 3) pay lag days. These calculations are
18 shown in RUCO's work papers. This accurately reflects the districts' cash
19 working capital needs. This is the same method that has been approved
20 by the Commission a number of times in recent cases.

21
22 ...
23

1 Q. What is RUCO's final analysis regarding the Company's revenue lag
2 calculation?

3 A. RUCO's analysis determined that the Company's pay lag days were
4 excessive by approximately eight to ten days for each district. Previous
5 Arizona-American lead/lag studies for the revenue lag days are nearly
6 identical to RUCO's in this case. For instance, Paradise Valley's previous
7 rate case (Decision No. 68858) recognized 38.30 revenue lag days.
8 RUCO calculated 38.90 for Paradise Valley in this instant case while the
9 Company used 50.13931 revenue lag days. The same is true for the
10 recent Mohave Water and Wastewater cases. Commission Decision No.
11 69440 established and approved 39.15 revenue lag days for Mohave
12 Water. RUCO calculated and recommends a near identical revenue lag
13 days of 39.20 in the instant case while the Company used 48.23919
14 revenue lag days in the instant case for the same Mohave Water District.
15 The Commission approved a revenue lag of 37.11 days in Commission
16 Decision No. 69440 for the Mohave Wastewater District. RUCO
17 recommends a 39.77 revenue lag for Mohave Wastewater in this case.
18 These recommendations are quite similar to what has been authorized in
19 Arizona-American's previous rate cases.

20
21
22 ...
23

1 Q. What is RUCO's final cash working capital recommendation for the seven
2 districts in this case?

3 A. RUCO recommends a total of negative \$299,676 for cash working capital,
4 inclusive of all seven districts. The amount for each individual district is
5 shown below:

7	Agua Fria	(\$ 236,355)	Havasu	\$ 10,348
8	Mohave WW	(\$ 4,689)	Mohave Water	\$ 67,444
9	Paradise Valley	(\$ 148,538)	Sun City West	(\$ 7,196)
10	Tubac	\$ 19,310		

11
12 Q. Isn't a negative amount of cash working capital peculiar outcome?

13 A. No, not at all. The Paradise Valley Water District in a recent case had a
14 similar amount of negative cash working capital. Utility bills and revenue
15 recovery are regular monthly occurrences, as are most expenses.
16 Therefore, larger utilities typically do not have positive cash working
17 capital requirements. Many of the utilities that file rate applications with
18 the Commission request zero cash working capital as a means of avoiding
19 the ultimate operating income reduction associated with negative cash
20 working capital.

21
22 ...
23

1 Q. Don't most of the companies claim that a lead/lag study is excessively
2 expensive, complex, labor intensive, and over burdensome?

3 A. Yes.
4

5 Q. How do you respond to that claim?

6 A. RUCO admits it does add to cost, it is somewhat complex, it requires more
7 labor, and may be a burden. As the Commission has acknowledged time
8 and time again, a lead/lag study is the most accurate method to measure
9 a Company's working capital requirements. From the Company's
10 perspective a lead/lag study is overly burdensome. This is no surprise
11 because it normally reduces rate base, and thus, utility operating income
12 is reduced. It is not fair to the ratepayers to provide additional cash to the
13 Company that it does not need. If the Company had maintained its direct
14 testimony position regarding cash working capital needs and that position
15 was accepted by the Commission, it would have resulted in an inflated
16 rate base of more than \$3.3 million and the Company would have received
17 a return on the inflated rate base.
18

19 Q. If the Company changed a billing/payment policy, would that warrant such
20 a deviation of revenue lag days from a previous case to this case?

21 A. That could be true. However, the Company's billing/payment policy is the
22 same today as it was in the prior cases (See RUCO Exhibit 3). That
23 exhibit states the meter reading, billing, and payment policy for the

1 Company, "each meter shall be read monthly or as close to the same day
2 of each month as practicable unless otherwise approved by the
3 Commission." This is the same Company policy that has existed for
4 years.

5
6 RUCO Direct OCRB Adjustment #6 – Paradise Valley Deferred Debits

7 NOTE: THIS ADJUSTMENT AFFECTS ONLY PARADISE VALLEY.

8 Q. Please discuss RUCO's deferred debit adjustment for Paradise Valley.

9 A. This adjustment is common to all seven districts in this case. It was
10 previously discussed in detail in RUCO rate base adjustment #5.

11
12 Q. What adjustment was necessary to restate the deferred debit balance?

13 A. This was a conforming adjustment that reduces the deferred debit balance
14 by \$1,083,637 in the Paradise Valley District.

15
16 RUCO Direct OCRB Adjustment #7 – White Tanks CWIP

17 NOTE: THIS ADJUSTMENT AFFECTS ONLY AGUA FRIA.

18 Q. Please discuss RUCO's position regarding the inclusion of the White
19 Tanks CWIP in Agua Fria Water District.

20 A. RUCO witness, Mr. Rigsby, discusses this adjustment in his testimony.

21
22
23 ...

1 RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

2 Q. Have you revised your Schedule presenting your recommended rate
3 designs?

4 A. Yes, as shown on Schedule SURR RLM-RD1, the rate design is
5 consistent with RUCO's recommended revenue allocations and
6 requirement as revised in RUCO's surrebuttal testimonies.

7
8 Q. Have you revised your Schedule presenting proof of your recommended
9 revenue?

10 A. Yes, I have. As shown on Schedule SURR RLM-RD1, my recommended
11 rate design will produce the recommended required revenue as revised in
12 my surrebuttal testimony.

13
14 **TYPICAL RESIDENTIAL BILL ANALYSIS**

15 Q. Has RUCO revised its Schedule representing the financial impact of
16 RUCO's recommended rate design on the typical residential customer?

17 A. Yes. The impact of RUCO's revised recommended revenues is presented
18 on the district's Surrebuttal Schedule RLM-RD2. This typical bill analysis
19 for residential customers shows the financial impact with various levels of
20 usage.

21
22 Q. Does this conclude your surrebuttal testimony?

23 A. Yes, it does.

RUCO

EXHIBIT 1

Mohave Water District
(Name of Service Area)

RULE NO. 7
METER READING

A. FREQUENCY

Each meter shall be read monthly or as close to the same day of each month as practicable unless otherwise approved by the Commission.

B. MEASURING OF SERVICE

1. All water delivered by the Company shall be billed upon the basis of metered volume sales, except that the Company may, at its option, provide a fixed charge for the following:
 - a. Temporary service where the water use can be readily estimated.
 - b. Public and private fire protection service.
 - c. Water used for street sprinkling and sewer flushing, when provided for by contract between the Company and the municipality or other local governmental authority.
 - d. Other fixed charge schedules as shall be submitted to and approved by the Commission.

C. CUSTOMER REQUESTED REREADS

1. The Company shall at the request of the customer reread the customer's meter within ten (10) working days after such request by the customer.
2. Any rereads shall be charged to the customer at the rate on file and approved by the Commission, provided that the original reading was not in error. Adjustment for reasonable usage since the original reading was taken shall be considered when determining the original reading.
3. When the original reading is found to be in error, the re read shall be at no charge to the customer, given adjustment for reasonable usage since the original reading was taken.

D. ACCESS TO CUSTOMER PREMISES

The Company shall at all times have the right of safe ingress to and egress from the customer's premises at all reasonable hours for any purpose reasonably connected with the Company's property used in furnishing service and the exercise of any and all rights secured to it by law or these rules.

ISSUED: July 1, 2004 EFFECTIVE: July 1, 2004
 Month Day Year Month Day Year
 ISSUED BY: David Stephenson, Rate Regulation Manager
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024

Mohave Water District
(Name of Service Area)

RULE NO. 8
BILLING AND COLLECTION

A. FREQUENCY AND ESTIMATED BILLS

1. The Company shall bill monthly for services rendered. Meter readings shall be scheduled for periods of not less than twenty-five (25) days or more than thirty-five (35) days, unless otherwise approved by the Commission.
2. If the Company is unable to read the meter on a scheduled meter read date, it will estimate the consumption for the billing period giving consideration to the following factors when applicable:
 - a. The customer's usage during the same month of the previous year.
 - b. The amount of usage during the preceding month.
3. After the second consecutive month of estimating the customer's bill for reasons other than severe weather or standard billing practice as approved by the Commission, the Company will attempt to secure an accurate reading of the meter.
4. Failure on the part of the customer to comply with a reasonable request by the Company for access to its meter may lead to the termination of service.
5. Estimated bills will be issued only under the following conditions:
 - a. Failure of a customer who reads his own meter to deliver his meter reading card to the Company in accordance with the requirements of the Company's billing cycle.
 - b. Severe weather conditions that prevent the Company from reading the meter.
 - c. Circumstances that make it dangerous or impossible to read the meter, i.e., locked gates, blocked meters, vicious or dangerous animals, etc.
 - d. Other billing cycles as approved by the Commission.
6. Each bill based on estimated usage will indicate that it is an estimated bill.

B. COMBINING METERS, MINIMUM BILL INFORMATION

1. Each meter at a customer's premises will be considered separately for billing purposes, and the readings of two or more meters will not be combined.
2. Each bill for residential service will contain the following minimum information:
 - a. Date and meter reading at the end of the actual or estimated billing period.
 - b. Previous month's actual or estimated meter reading and date.

ISSUED: July 1, 2004 EFFECTIVE: July 1, 2004
Month Day Year Month Day Year
ISSUED BY: David Stephenson, Rate Regulation Manager
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024

Decision No. 67093



Gauging Water Use

Reading Your Meter

The water meter measures the amount of water you use, and its readings serve as the basis for your water charges. We read meters monthly in most areas. The meter may be inside, often in the basement, or it may be outside, usually in a pit at the curb. Water meters measure the amount of flow from the water main into the home plumbing system. Only the flow of water into the meter can cause its dial to move to register water usage. At many properties with a meter inside, we have installed devices outside so that we can read the meter without having to enter your property.

If your meter is inside your property and there is no device outside to read the meter, you can help us to ensure accurate billings by providing us access to the meter on the next reading date indicated on your bill, or calling your reading in that day to our toll-free meter reading number, 1.800.672.1095. If the meter is outside, you do not need to assist us in obtaining a reading.

Since the register is never reset while the meter is in service, the usage for any given period is determined by subtracting the previous reading from the present reading.

If Your Bill is Unusually High

An unusually high bill can occur for many reasons. A little investigation can help you save water and money.

Actual readings:

Make sure your meter is accessible, so your bill is based on actual readings. When we cannot obtain a meter reading, we try to estimate usage accurately. However, a high bill can occur when an actual meter reading follows several estimated readings that were too low. To avoid estimated readings, make sure your meter is easily accessible to our meter reading crews.

Check for leaks:

Small leaks can quickly add up to many gallons lost. A dripping faucet can waste 15 gallons a day. Just a 1/8-inch sized leak consumes more than 3,500 gallons per day. Most leaks are easy to find, but some can go undetected. You may want to check:

- Your toilet. It is not uncommon to lose more than 100 gallons a week to a toilet leak. You can check for leaks by putting a small amount of weak coffee or tea in the tank, then watch for a few minutes. If the color of the coffee/tea shows up in the bowl, you have a leak that needs to be repaired. Similarly, leak detection kits have dye tablets that perform the same function. Food coloring, however, is not recommended as it may adhere to cracks/scratches in the bowl and permanently stain.
- Dishwasher/clothes washer. Look for drips or stains underneath or behind these appliances.
- Indoor and outside faucets. Replace worn gaskets and washers.
- Sprinkler systems. Check for damaged sprinkler system heads and system leaks.

Look at your water usage:

- The high bill may be explained by changes in the way your household is using water.
- Did you use more water keeping your lawn green?
- Is your water sprinkler system functioning properly?
- Did you do extra loads of laundry before or after a vacation?
- Did you have friends or relatives staying at your house?

Water Usage for standard homes (approximate gallons per use)

Toilets:

Conventional: 5.0

Low-Flow: 3.5

Ultra Low-Flow: 1.6

Washing Machines:



Billing and Payment Information

At Arizona American Water, providing you with the best customer service possible is our priority. We offer the following payment methods:

Pay by Mail

Use the convenient return envelope provided to you with your bill. Detach and enclose the bill stub with your check or money order. Do not send cash.

Automatic Payment

Sign up for Automatic Payment, and your bill will be paid on time, every time, directly from your checking or savings account on the date it is due.

Download the [Automatic Payment Form](#) for complete instructions.

Online Bill Pay

You can use your Visa or MasterCard credit or debit cards to pay your bill online. For more information, visit: www.paymybill.com

Pay by Phone

If you do not have questions about your bill, you can pay-by-phone using your Visa or MasterCard by calling 1.866.271.5522. There is a small fee for this service. Be sure to have your 10-digit account number handy. This is located on the upper right corner of your current bill.

Pay at at local payment location

[Convenient payment locations](#) across the state will accept your payment. Please note these locations DO NOT accept payments by mail.

Understanding Your Bill

The service charge on your bill allows the company to recover a portion of fixed costs necessary to provide customers with access to service. Power, chemicals, maintenance, rent, customer service, and administrative service expenses are examples of these costs. Other charges determined by the Arizona Corporations Commission may also be shown on your bill.

Today, most Arizona American Water customers are billed based on the volume they consume as measured by a water meter at the service location. Metered systems help customers monitor their water usage to conserve precious resources, protect the environment, and control customer costs.

Metered Customers

Arizona American Water employees regularly read your water meter to find out how much water has been used during the prior period. The service charge is a minimum regular charge determined by the meter diameter, to which we add a commodity charge based on the cost of water actually used.

Payment is due upon receipt of the bill. The bill is past due 15 days after the billing date on the statement. Failure to pay in a timely manner may result in disconnection of water service. To start service again, the outstanding bill and a reconnection fee must be paid.

Third Party Notification Service

A special program is available to help protect elderly or disabled customers from service interruption. We offer this service at no extra charge. With our Third Party Notification service, a phone call will be made to a person designated by the customer prior to service being disconnected. This will give a family member, friend or caregiver time to take action to prevent the service from being terminated.

For most customers, your water bill is divided into two sections – a flat service charge and a quantity charge.

A. The flat service charge is the fee you pay to connect to the system. It remains the same each month

Arizona American Water Company
(Name of Company)

Original SHEET NO. 1A
SHEET NO. _____

Agua Fria Water District
(Name of Service Area)

Terms and Conditions

Water service provided under this rate schedule is subject to this District's Rules and Regulations applicable to Water Service and may be subject to this District's Miscellaneous Service Charges set forth in Rate Schedule MISC-1.

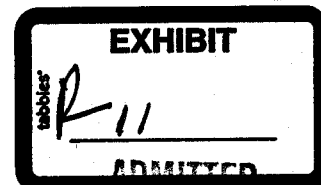
Water service under this Schedule is for the exclusive use of the Customer and water shall not be resold or provided to others.

All rates in this Schedule shall be subject to their proportionate part of any taxes or other governmental imposts which are assessed directly or indirectly on the basis of revenues derived from service under this Schedule, or on the basis of the service provided or the volume of water produced, purchased or sold.

A 1½% late payment penalty will be applied to account balances not paid within twenty-five (25) days after the postmark date of the bill in accordance with Rule 8 (H).

ISSUED: July 5, 2006 EFFECTIVE: July 5, 2006
Month Day Year Month Day Year
ISSUED BY: Thomas Broderick, Rate Regulation Manager
19820 N. 7th St., Suite 201, Phoenix, Arizona 85024
Decision No. 68825

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-08-0227 and SW-1303A-08-0227



Response provided by: Joseph E. Gross
Title: Director of Engineering

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: DH 16.2

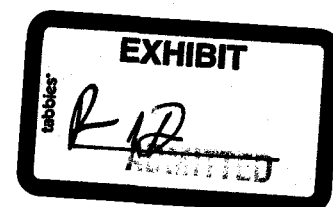
Q: Wishing Well Wastewater Treatment Plant ("Wishing Well") Expansion Project

Based on the projected next five year growth rate and 2007 wastewater flow data, this project is more than 50% overbuilt. Please explain the reason why the Company decided to over-expand the treatment plant.

A: The Company did not decide to over-expand this treatment plant. On the contrary, during the pre-design phase in 2006, growth projections indicated that the .25 mgd capacity of the existing plant would be exceeded in 2008. This estimate was based upon signed commitments to serve the following developments and an accelerated design program was initiated to insure the plant capacity would not be exceeded by the demands of the new developments. During construction in 2007-2008, development slowed; however, the commitments to serve these developments remain in force. It is not cost-effective to increase treatment plant capacity in small 50-100 mgd increments and the existing ADEQ permit approved the expanded capacity of .500 mgd.

Development Name	Total	Design
	Units	Flow (ADF, MGD)
Greens at Los Lagos	389	0.072
Brett Canyon Estates	55	0.013
Desert Lakes Estates D,E	240	0.040
Everglade Estates	154	0.039
Mesa Vista	131	0.024
Patriot Estates	119	0.030
Sage Hill A & B	99	0.037
Twin Palm Estates	144	0.036
Stetson Ranch	57	0.011
<u>Valley Springs Estates</u>	<u>132</u>	<u>0.025</u>
Total Units	1520	0.317
		0.134 <-- Average Daily Plant Flow
		0.442 <-- Required Future Plant Flow

ADEQ Permit Limit 0.50 mgd
- original plant capacity 0.25 mgd
- expansion complete Aug 2008 to 0.50 mgd



ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 9, 2009

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APPENDIX 1 – Qualifications of William A. Rigsby

1 **INTRODUCTION**

2 Q. Please state your name, occupation, and business address.

3 A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed
4 by the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 Q. Please describe your qualifications in the field of utility regulation and your
8 educational background.

9 A. I have been involved with utility regulation in Arizona since 1994. During
10 that period of time I have worked as a utilities rate analyst for both the
11 Arizona Corporation Commission ("ACC" or "Commission") and for RUCO.
12 I hold a Bachelor of Science degree in the field of finance from Arizona
13 State University and a Master of Business Administration degree, with an
14 emphasis in accounting, from the University of Phoenix. Appendix 1,
15 which is attached to this testimony, further describes my educational
16 background and also includes a list of the rate cases and regulatory
17 matters that I have been involved with.

18
19 Q. What is the purpose of your testimony?

20 A. The purpose of my testimony is to present RUCO's policy positions in this
21 case and to provide recommendations that are based on my analysis of
22 Arizona-American Water Company Inc.'s ("Arizona-American" or "the

1 Company") revised application for a permanent rate increase
2 ("Application") for seven of the Company's water and wastewater districts.
3

4 Q. Which water and wastewater districts are included in Arizona-American's
5 Application?

6 A. Arizona-American is seeking permanent rate increases for the Company's
7 Agua Fria, Havasu, Mohave, Paradise Valley, Sun City West, and Tubac
8 Water Districts, and the Company's Mohave Wastewater District. Arizona-
9 American filed the Application with the ACC on June 20, 2008. The
10 Company has chosen the calendar year ended December 31, 2007 for the
11 test year in this proceeding.
12

13 Q. Briefly describe Arizona-American.

14 A. Arizona-American operates eleven water and wastewater systems in
15 Arizona. The Company is a subsidiary of American Water, a publicly
16 traded entity on the New York Stock Exchange, which is based in
17 Voorhees, New Jersey. According to information contained on American
18 Water's website¹ American Water provides water and wastewater service
19 to customers in nineteen other states (including California, Hawaii and
20 New Mexico in the western U.S.) and three Canadian provinces.
21

¹ <http://www.amwater.com>

1 Q. Is this your first case involving Arizona-American?

2 A. No. I have also testified, as a witness for RUCO, on cost of capital issues
3 in prior rate case proceedings for Arizona-American's Sun City and Sun
4 City West Wastewater Districts². I also appeared as a witness in rate case
5 proceedings that involved the Company's Anthem/Agua Fria Water and
6 Wastewater Districts³, as well as Arizona-American's Mohave⁴ and
7 Paradise Valley Districts⁵. I also recommended, as a Senior Rate Analyst
8 on the ACC Staff, that the Commission reauthorize a revolving line of
9 credit for the Paradise Valley Water District⁶. In addition to the rate
10 increase and financing proceedings cited above, I have also prepared
11 testimony in cases that involved a request for an arsenic cost recovery
12 surcharge for Arizona-American's Paradise Valley District. I further
13 testified on Arizona-American's request for an increase in hook-up fees to
14 fund the construction of the Company's White Tanks surface water
15 treatment facility ("White Tanks Plant"), for the Company's Agua Fria
16 District⁷ which is one of the issues in this proceeding.

17
18

² Docket No. WS-01303A-06-0491

³ Docket No. WS-01303A-06-0403

⁴ Docket No. W-01303A-06-0014

⁵ Docket No. W-01303A-05-0405 et al.

⁶ Docket No. W-01335A-00-0327

⁷ Docket No. W-01303A-05-0718

1 Q. Please explain your role in RUCO's analysis of Arizona-American's
2 Application.

3 A. I reviewed the testimony of Company witness Thomas M. Broderick and
4 other witnesses that provided testimony in this proceeding in order to
5 understand the impact that the Company's requests will have on
6 residential customers.

7
8 Q. Were you responsible for conducting an analysis on the rate base,
9 required revenue and rate design issues associated with Arizona-
10 American's Application?

11 A. Only from a policy standpoint. The specific accounting adjustments which
12 support RUCO's rate base and revenue level recommendations will be
13 presented in the direct testimony of RUCO witnesses Timothy J. Coley
14 and Rodney L. Moore. During the evidentiary hearing, Mr. Coley will
15 testify on the rate base issues associated with the case and Mr. Moore will
16 testify on the required revenue issues. Mr. Moore will sponsor RUCO's
17 recommended rate design in his direct testimony to be filed later in this
18 proceeding and will also address the issue of rate consolidation.

19
20 Q. Is RUCO presenting cost of capital testimony in this proceeding?

21 A. Yes. I have also filed, under separate cover, RUCO's recommendations
22 on the cost of capital issues associated with Arizona-American's
23 Application.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your direct testimony is organized.

A. My direct testimony is organized into three sections. First, the introduction I have just presented and second, the summary of my testimony that I am about to give. Third, I will present the rationale and policy considerations behind RUCO's recommendations on each of the issues that are summarized below.

Q. Please summarize the recommendations on the issues that you will address in your testimony.

A. Based on the results of RUCO's analysis of Arizona-American, I am making the following recommendations:

Imputed AIAC – I am recommending that the Commission adopt the Company-proposed treatment of imputed advances-in-aid-of-construction ("AIAC").

White Tanks Plant CWIP – I am recommending that the Commission deny Arizona-American's request for rate base treatment of \$25 million of construction work in progress ("CWIP") associated with the Company's White Tanks Plant.

1 White Tanks Plant O&M Deferral Mechanism – Consistent with RUCO's
2 recommendation to deny rate base treatment of CWIP associated with the
3 White Tanks Plant, I am also recommending that the Commission deny
4 the Company's request for an operations and maintenance ("O&M") cost
5 deferral mechanism, which would be similar to the arsenic cost recovery
6 mechanism ("ACRM") that the Commission has approved in prior cases.

7
8 White Tanks Plant Hook-up Fees – RUCO recommends that the
9 Company-proposed changes to the WHU-1 hook-up fees, that are funding
10 the White Tanks Plant, be rejected.

11
12 Tubac ACRM – I am recommending that the Commission approve
13 Arizona-American's request for an actual ACRM that will allow the
14 Company to recover the costs associated with the removal of arsenic from
15 water being provided to customers in Arizona-American's Tubac Water
16 District.

17
18 Existing ACRM Surcharges – I am recommending that the Commission
19 approve Arizona-American's request to eliminate the existing ACRM
20 surcharges for the Company's Agua Fria, Havasu, Paradise Valley, and
21 Sun City West Water Districts upon the conclusion of this case and the
22 implementation of permanent rates.

1 Paradise Valley Public Safety Surcharge – Based on the results of
2 RUCO's analysis, I am recommending that a public safety surcharge be
3 implemented to allow the Company to recover the financing costs
4 associated with fire flow prevention improvements that were approved by
5 the Commission in the prior proceeding on Arizona-American's Paradise
6 Valley Water District.

7
8 Paradise Valley System Benefits Surcharge – I am recommending that the
9 Commission adopt the Company-proposed System Benefits Surcharge
10 which will contribute to water conservation efforts in the Paradise Valley
11 community.

12
13 Paradise Valley CAP Surcharge Modifications – RUCO has reviewed the
14 Company's testimony on this issue and is not making any recommended
15 changes to the existing Central Arizona Project ("CAP") surcharge at this
16 time.

17
18 Wishing Well Wastewater Treatment Facility – Based on RUCO's
19 analysis, I am recommending that the Commission allow rate base
20 treatment of fifty percent of the costs associated with the facility. RUCO is
21 also recommending that the Company be permitted to defer any remaining
22 costs for consideration in a future rate case proceeding.

1 Tank Maintenance – I am recommending that the Commission adopt the
2 Company-proposed tank maintenance program which will establish a
3 reserve for the purpose of inspecting and maintaining water tanks
4 covering a ten-year cycle.

5
6 Fuel and Power Supply Adjustment Mechanism – I am recommending that
7 the Commission deny Arizona-American's request for a fuel and power
8 supply adjustment mechanism.

9
10 **IMPUTED AIAC**

11 Q. Please provide a brief background on this issue.

12 A. This issue dates back to the transfer of Citizens Communications
13 Company's ("Citizens") water and wastewater assets to Arizona-American
14 during the 2000-2001 time frame. Originally, the transfer of assets
15 between the two utilities was structured in such a way that Arizona-
16 American would not be acquiring the AIAC and contributions-in-aid-of-
17 construction ("CIAC") balances that Citizens had on its books and records.
18 Those balances, which were treated on Citizens' books as deductions
19 from rate base, totaled over \$85 million in aggregate. The approval of the
20 transfer of assets as originally structured between Citizens and Arizona-
21 American would have resulted in immediate increases in the rate bases of
22 the transferred systems and in higher rates to existing customers.
23 Because of the large detrimental effect of the transaction on ratepayers

1 and the potential for significant rate increases as a result of the transfer of
2 assets, RUCO did not believe the transaction was in the public interest.
3 Subsequently, the Commission approved a settlement agreement, which
4 was reached between ACC Staff and Arizona-American, that required the
5 Company to impute both the AIAC and CIAC balances that existed at the
6 time the assets were transferred. Pursuant to Decision No. 63584, dated
7 April 24, 2001, the imputed AIAC was to be amortized over a six-and-a-
8 half year period and the imputed CIAC was to be amortized over a ten
9 year period. In this manner, ratepayers were to be held harmless for the
10 loss of these funds in the transaction. The amortization of both the
11 imputed AIAC and CIAC began on January 15, 2002. The imputed AIAC
12 was fully amortized on July 14, 2008, approximately six-and-a-half months
13 after the 2007 test year ended in this proceeding.
14

15 Q. What is Arizona-American seeking in regard to the imputed AIAC in this
16 proceeding?

17 A. Arizona-American is seeking Commission approval to recognize the full
18 amortization of the imputed AIAC given the fact that rates approved in this
19 proceeding will not go into effect until the later part of 2009. If the
20 Commission does not grant the Company's request, the remaining portion
21 of imputed AIAC, which was fully amortized outside of the 2007 test year,
22 will remain in the Company's new rates until Arizona-American files for
23 rates in a future proceeding.

1 Q. What is RUCO's recommendation on this issue?

2 A. RUCO believes that the amortization of the imputed AIAC is a known and
3 measureable post-test year event and is in agreement with the Company
4 on this issue. Given the fact that the imputed AIAC has been fully
5 amortized since July 14, of 2008, RUCO believes that the Commission
6 should approve the Company's request
7

8 **WHITE TANKS PLANT CWIP**

9 Q. Please describe the White Tanks Plant that is an issue in this proceeding.

10 A. The White Tanks Plant is a surface water treatment facility located along
11 the Beardsley Canal in the northwest portion of the Salt River Valley. It
12 was originally planned to provide treated CAP water to future customers in
13 the Agua Fria Water District. In Decision No. 69914, dated September 27,
14 2007, the Commission approved, among other requests, an increase in
15 the Company's existing hook-up fees (which will be treated as CIAC when
16 the facility goes into service) to fund the construction of the White Tanks
17 Plant. The Commission also approved accounting treatments for certain
18 costs associated with the construction of the facility. Arizona-American
19 was also permitted to seek an adjustment of the aforementioned hook-up
20 fees in the instant case.
21

22 ...
23

1 Q. Did RUCO support the Company's requests that were approved in
2 Decision No. 69914?

3 A. Yes. RUCO supported the Company's requests in that particular
4 proceeding. At that time RUCO believed that Arizona-American's
5 requests were in line with the concept that future growth should pay for
6 itself and that existing ratepayers should be held harmless from the
7 demands that future development places on their water and wastewater
8 systems. Since the collected hook up-fees will be treated as CIAC, which
9 is a deduction from rate base when the facility is placed into service,
10 existing customers will not have to pay for the costs to construct the White
11 Tanks Plant in their rates.

12
13 Q. What is Arizona-American requesting in this case in regard to the White
14 Tanks Plant?

15 A. Arizona-American is requesting three things in regard to the White Tanks
16 Plant. First, the Company is seeking rate base treatment for \$25 million in
17 CWIP associated with the White Tanks Plant. Second, Arizona-American
18 is requesting approval of an ACRM-like surcharge that will allow the
19 Company to recover twelve months of deferred O&M expenses associated
20 with the White Tanks Plant which can also serve to recover capital costs
21 once the facility is completed. Third and last, Arizona-American is
22 proposing certain accounting treatments for fees associated with the
23 White Tanks Plant. In conjunction with this proposal, the Company is

1 seeking certain accounting treatments associated with allowance for funds
2 used during construction ("AFUDC"). I will address the last two items
3 separately from the Company's request to include CWIP in rate base.
4

5 Q. Why is Arizona-American requesting that \$25 million in CWIP associated
6 with the White Tanks Plant be given rate base treatment?

7 A. Arizona-American witness, Paul G. Townsley stated in his direct testimony
8 that the Company is not collecting enough funds through the Commission-
9 approved hook up fee as a result of the decline in new housing
10 construction that Arizona and other parts of the country are experiencing.
11 Mr. Townsley has stated that the Commission should approve the
12 Company's request based on groundwater conservation concerns. Mr.
13 Townsley is also advocating that existing ratepayers not only pay for
14 White Tanks Plant CWIP in rate base, but that they also pay for the costs
15 that exceed hook-up fee collections in future rates after the facility is
16 completed and booked as plant in service. Mr. Townsley is further asking
17 that the existing hook-up fee, which is scheduled to expire in 2015, be
18 extended to 2020.
19

20 Q. What is RUCO's position on Arizona-American's request to include \$25
21 million in White Tanks Plant CWIP in rate base?

22 A. RUCO is opposed to Arizona-American's request and recommends that
23 the Commission deny it.

1 Q. Why is RUCO opposed to the Company's request to include \$25 million in
2 White Tanks Plant CWIP in Rate Base?

3 A. RUCO has consistently taken the position that CWIP fails the used and
4 useful standard which is the basis for allowing recovery of utility plant in
5 rates. RUCO does not believe that ratepayers should have to pay for
6 plant that is not fully functional and may possibly never be placed into
7 service. As I explained earlier, RUCO's past support for the White Tanks
8 Plant has been conditioned on the fact that existing ratepayers were not
9 going to have to pay for plant that was clearly intended for future
10 customers.

11
12 Q. Has the Commission taken a similar position on CWIP in the past?

13 A. Yes. With the exception of the Palo Verde Nuclear Generating Station
14 that was being built by Arizona Public Service Company in the late 1970's
15 and early 1980's, the Commission has to the best of my knowledge,
16 typically denied the inclusion of CWIP in rate base.

17
18 Q. Does RUCO believe that the White Tanks Plant should be given the type
19 of rate base treatment that Mr. Townsley has advocated after the plant is
20 completed?

21 A. That is a matter to be addressed in a future proceeding. However RUCO
22 believes that if the final costs for the White Tanks Plant are not covered by
23 the hook-up fees that are to be treated as CIAC when the facility is booked

1 in the Company's plant-in-service account, a good argument could be
2 made that the uncovered portion of the costs should not be included in
3 rate base.

4
5 Q. Does RUCO support the Company's request to extend the collection
6 period for the hook-up fees through 2020?

7 A. Yes. RUCO supports the Company's request and is not opposed to an
8 extension of the existing fees.

9
10 **WHITE TANKS PLANT O&M DEFERRAL MECHANISM**

11 Q. Please explain the Company's request for a mechanism to recover
12 deferred O&M costs.

13 A. According to the direct testimony of Mr. Thomas M. Broderick, the
14 Company is seeking an ACRM-like mechanism that will allow it to recover
15 both capital costs and twelve months of deferred O&M costs associated
16 with the White Tanks Plant when it goes into service after rates are
17 established in the instant case.

18
19 Q. What is RUCO's position on the Company's request?

20 A. Consistent with RUCO's recommendation to deny rate base treatment of
21 CWIP associated with the White Tanks Plant, RUCO believes that the
22 Commission should deny the Company's request for an O&M cost deferral
23 mechanism.

1 Q. Why is RUCO opposed to the Company's request?

2 A. There are several reasons why RUCO has consistently opposed the use
3 of ACRM-like mechanisms. Adjustor mechanisms are extraordinary rate
4 recovery devices that are permitted for certain narrow circumstances. The
5 ACRM is a type of adjustor mechanism that was specifically designed to
6 address a one-time event that impacted dozens of Arizona water
7 companies simultaneously. The Company's costs for the White Tanks
8 Plant are not the type of costs for which an adjustor mechanism is
9 generally permitted, nor are they similar to the costs recovered through
10 the ACRM.

11
12 Q. What was the original intent for the ACRM?

13 A. The original ACRM was approved by the Commission to give water
14 providers in Arizona the ability to recover the costs associated with
15 meeting the U.S. Environmental Protection Agency's ("EPA") revised
16 drinking water arsenic standard of 10 parts per billion. The EPA's
17 requirement that water providers comply with the more stringent standard
18 was in effect an unfunded mandate from the federal government. Multiple
19 Arizona water providers had no choice but to either comply with the EPA's
20 rule or face the consequences of being in violation of it. This being the
21 case, representatives from the state's investor owned water companies,
22 ACC Staff, and RUCO developed the present ACRM which allows water
23 utilities to comply with the new EPA standard through a surcharge that

1 was established within the context of a rate case proceeding where a
2 constitutional finding of a utility's fair value has been established. The key
3 point here is that the EPA's revised arsenic standard represented an
4 extraordinary circumstance that neither Arizona's government, which
5 includes the Commission, or the state's water companies, either investor
6 owned or municipal, had any control over, and that would be impacting a
7 number of water utilities simultaneously.

8
9 Q. Are there any similar mandates in regard to the construction of the White
10 Tanks Plant?

11 A. No. There is no federal, or for that matter any other, mandates requiring
12 that Arizona-American be required to construct a surface water treatment
13 facility. Nor are there any other extraordinary circumstances that would
14 warrant the approval of an ACRM-like mechanism in this case. The
15 Commission has already gone to extraordinary lengths in allowing
16 Arizona-American to collect hook-up fees to fund construction, to delay the
17 recognition of CIAC until the facility is placed into service and to grant the
18 Company's requests for certain accounting treatments for the deferral of
19 costs. Under normal ratemaking procedures these types of costs would
20 not even be considered for recovery until the plant is placed into service
21 and is providing a benefit to ratepayers. For these reasons and the
22 reasons stated above, RUCO believes that the Company's request be
23 denied.

WHITE TANKS PLANT HOOK-UP FEES

Q. What Is RUCO's position on the proposals that Mr. Broderick makes regarding the WHU-1 hook-up fees that are funding the White Tanks Plant?

A. Consistent with RUCO's two previous recommendations regarding the White Tanks Plant, I am recommending that none of Mr. Broderick's recommendations regarding the WHU-1 hook-up fee be adopted by the Commission. RUCO further recommends that the Company continue to adhere to the provisions of Decision No. 69914 in regard to matters pertaining to the White Tanks Plant.

TUBAC ACRM

Q. Does RUCO support Arizona-American's request for approval for an ACRM for the Company's Tubac Water District?

A. Yes. RUCO would expect Arizona-American to file the same types of Step-one and Step-two ACRM applications that it has for its other systems in the past after the arsenic removal plant is placed into service and the costs can be identified.

...

1 Q. Will RUCO take part in the review of the Company's ACRM filing for the
2 Tubac Water District?

3 A. Yes. RUCO has reviewed all of the prior ACRM filings that resulted from
4 rate cases that RUCO has intervened in. The Tubac system will not be an
5 exception.

6
7 **EXISTING ACRM SURCHARGES**

8 Q. Does RUCO support Arizona-American's request to eliminate existing
9 ACRM surcharges in several of the Company's water systems?

10 A. Yes. The ACRM was intended to allow utilities in Arizona to recover their
11 arsenic treatment costs through a temporary surcharge until new
12 permanent rates are established in a future rate case proceeding such as
13 this one.

14
15 Q. Please explain how the plant assets needed to remove arsenic and the
16 O&M expenses associated with the plant will be treated going forward?

17 A. In short, the costs associated with the arsenic plant will be recovered
18 through new permanent rates as opposed to being recovered through a
19 separate existing surcharge (i.e. the ACRM). The capital costs of arsenic
20 plant that is providing useful service to ratepayers will be included in rate
21 base and the Company will be able to earn a rate of return on them just as
22 they would with any other rate base item. The Company will also recover

1 the O&M expenses on a dollar for dollar basis in rates just as it would with
2 any other prudently incurred operating expense.

3
4 Q. Has RUCO made the necessary adjustments to rate base and operating
5 expenses to insure that the Company will recover arsenic recover costs in
6 rates going forward?

7 A. Yes. Both Mr. Coley and Mr. Moore have made the necessary
8 adjustments and the costs of arsenic removal for the affected systems will
9 be reflected in RUCO's recommended level of revenue.

10
11 **PARADISE VALLEY PUBLIC SAFETY SURCHARGE**

12 Q. Please provide a brief background on this issue.

13 A. In a prior rate case proceeding during the 2005 – 2006 period, both
14 Arizona-American and the Town of Paradise Valley sought a public safety
15 surcharge for the purpose of funding upgraded fire flow improvements for
16 the Company's Paradise Valley Water District. During the proceeding,
17 RUCO opposed the Company's request on the grounds that the Company
18 was already meeting the Commission's minimum requirements for fire
19 protection and that the Company's request represented a discretionary
20 expenditure that should be rejected. RUCO argued at the time that the
21 project could be funded by lower cost sources of capital provided by the
22 Town of Paradise Valley that could be booked as CIAC.

1 The Commission subsequently rejected RUCO's arguments and adopted
2 an ACC Staff modified version of Arizona-American's proposed rate
3 design which included a public safety surcharge and a high block usage
4 surcharge in Decision No. 68858, dated July 28, 2006.

5 Not long after the passage of Decision No. 68858, which also established
6 the present rates for the Paradise Valley Water District and the
7 aforementioned surcharges, both the ACC and RUCO began receiving
8 complaints from Paradise Valley customers who were experiencing rate
9 shock as a result of the high block usage surcharge which was used to
10 fund fire flow improvements (the public safety surcharge did not go into
11 effect until October 2007). After a number of filings which requested the
12 Commission to reconsider Decision No. 68858⁸, the Commission voted to
13 reconsider the Decision for the limited purpose of reviewing the Rate
14 Design Agreement at a noticed ACC Staff meeting held on February 27,
15 2008.

16 On January 15, 2008, a rate design Agreement reached by Arizona-
17 American and signed by the Town of Paradise Valley and several resorts
18 and homeowners associations was filed with the Commission (neither
19 Arizona-American nor RUCO were signatories to the rate design
20 agreement).

21 During the proceeding on the rate design agreement, RUCO expressed a
22 number of concerns about the rate design agreement and eventually

⁸ RUCO did not join in the request to reconsider the Decision.

1 supported ACC Staff's recommendation to reduce the existing high block
2 usage surcharge from the original \$2.15 per 1,000 gallons to the present
3 \$1.00 per 1,000 gallons.

4 RUCO also recommended that the Commission adopt ACC Staff's
5 recommendation to eliminate the existing public safety surcharge until the
6 Commission has the opportunity to examine the fire flow issue in the
7 Company's next rate case proceeding. The Commission adopted ACC
8 Staff's recommendations in Decision No. 70488, dated September 3,
9 2008.

10 At that time RUCO believed, as did ACC Staff, that a future rate case is
11 the better forum to make changes to the Company's existing rate design
12 for recovery of the fire flow costs. Furthermore, a rate case would provide
13 all of the concerned parties with the opportunity to examine this issue with
14 all of the other ratemaking elements that determine what just and
15 reasonable rates should be for the Paradise Valley ratepayers.

16
17 Q. Is RUCO still opposed to the fire flow improvement project?

18 A. RUCO still stands by its original argument that the fire flow improvement
19 project is discretionary in nature and that there are lower cost lower cost
20 methods than the one proffered by the Company and the Town of
21 Paradise Valley in the case. However that argument is behind us since
22 the Commission has approved the project. RUCO's role in this case is to

1 recommend a mechanism that provides funding for the project that also
2 results in just and reasonable rates.
3

4 Q. What is RUCO recommending?

5 A. RUCO is recommending that a monthly public safety surcharge be
6 implemented to fund the remaining portions of the fire flow improvement
7 project. The details on the surcharge will be presented in the rate design
8 testimony of RUCO witness Rodney Moore.
9

10 Q. Briefly describe the public safety surcharge that RUCO is recommending.

11 A. RUCO is recommending that the monthly public safety surcharge be
12 comprised of a monthly minimum charge and a commodity charge in order
13 to insure that the Company receives a minimum level of revenue for the
14 project on a regular monthly basis regardless of consumption patterns.
15

16 Q. What classes of customers would be subject to the public safety
17 surcharge?

18 A. RUCO is recommending that all classes of customers be subject to the
19 monthly public safety surcharge.
20
21
22

1 Q. Isn't it true that RUCO was opposed to low usage customers being subject
2 to a fire flow surcharge during the rate design agreement proceeding?

3 A. Yes, however, as I noted earlier, the instant proceeding has provided
4 RUCO with the time to be able to analyze this issue more fully and while
5 RUCO certainly would have preferred not to apply any surcharge at all,
6 the Commission's prior decision and our analysis has unfortunately
7 eliminated that scenario as a viable option.

8
9 Q. How will the public safety surcharge fund the remainder of the fire flow
10 project?

11 A. Based on information obtained from Mr. Broderick in telephone
12 conversations with RUCO witness Rodney Moore, Arizona-American
13 could finance the project with a bond issuance that could be repaid by the
14 recommended surcharge.

15
16 Q. Would the public safety surcharge be treated as revenue?

17 A. Yes. RUCO's recommended public safety surcharge could also be
18 adjusted to insure that the Company recovers both the principal and
19 interest components of the bond issuance. By financing the fire flow
20 improvements in this manner the ratepayers would not have to fund the
21 project with higher cost equity capital. The Company could earn a return
22 on the fire flow improvement assets as they are rate based in future
23 proceedings, however, RUCO would recommend that the bond used to

1 finance the fire flow improvements not be included in the Company's
2 capital structure. Furthermore, RUCO would also recommend that any
3 funds already collected through existing or suspended surcharges
4 continue to be treated as CIAC.

5
6 Q. How long would the public safety surcharge be in place?

7 A. RUCO recommends that the surcharge be eliminated after the bond
8 matures. Under this scenario, both existing and future customers will pay
9 for fire flow improvements that will provide service to them.

10
11 Q. Would RUCO's recommended public safety surcharge replace the existing
12 high block usage surcharge that is currently providing funding for the fire
13 flow improvements?

14 A. Yes. RUCO is recommending that the existing high block usage
15 surcharge be eliminated.

16
17 **PARADISE VALLEY SYSTEM BENEFITS SURCHARGE**

18 Q. What is the purpose of the Company-proposed Paradise Valley System
19 Benefits Surcharge?

20 A. The purpose of the system benefit surcharge is to fund conservation-
21 oriented programs subject to Commission approval. According to the
22 Company, the surcharge would apply to high-end water users (i.e.
23 consumption exceeding 125,001 gallons per month) and would be

1 accounted for as revenue and would be trued-up in a future rate case for
2 any accumulated under- or over-spending.

3
4 Q. Does RUCO support the Company-proposed Paradise Valley System
5 Benefits Surcharge?

6 A. Yes. RUCO is aware of landscape conversion programs and other types
7 of public awareness programs that could be funded by the Company-
8 proposed surcharge and believes that both the Company and ratepayers
9 can derive benefits from these types of programs. For this reason RUCO
10 recommends that the Commission should adopt the requested Paradise
11 Valley System Benefits Surcharge.

12
13 **PARADISE VALLEY CAP SURCHARGE MODIFICATIONS**

14 Q. Have you reviewed the testimony on the Company's Paradise Valley CAP
15 Surcharge?

16 A. Yes. I have reviewed the testimony of Company witness John C.
17 Lenderking. Mr. Lenderking explains in his testimony that Arizona-
18 American is no longer exchanging the Company's CAP water for Salt
19 River Project ("SRP") water to blend contaminated groundwater in the
20 Paradise Water District. This was a result of the Company's decision to
21 shut down the PCX-1 well which was the source of the contaminated
22 groundwater.

1 Q. How is Arizona-American currently utilizing the Company's CAP allocation
2 for the Paradise Valley District?

3 A. Mr. Lenderking stated in his testimony that since there is no need for the
4 SRP water in Paradise Valley, the Company is now storing its CAP water
5 with the Central Arizona Water Conservation District's ("CAWCD")
6 Tonopah Desert Recharge Project. Mr. Lenderking went on to state that
7 the cost for storing CAP water at a CAWCD facility is a lower \$8.00 per
8 acre foot while the cost to exchange water with SRP is a higher \$22.62
9 per acre foot. The present Paradise Valley CAP Surcharge recovers both
10 the SRP and CAP costs.

11
12 Q. Is RUCO recommending any changes to the existing Paradise Valley CAP
13 Surcharge?

14 A. Not at this time. However RUCO is in the process of conducting further
15 discovery on this matter and reserves the right to change its position
16 based on the results of its discovery efforts.

17
18 **WISHING WELL WASTEWATER TREATMENT FACILITY**

19 Q. What is the Wishing Well Wastewater Treatment Facility?

20 A. The Wishing Well Wastewater Treatment Facility is a wastewater
21 treatment plant that was built to provide service to customers in Arizona-
22 American's Mohave Wastewater District. Additional discussion on the

1 facility is being presented in the direct testimony of RUCO witness
2 Timothy J. Coley.
3

4 Q. Is Arizona-American seeking rate base treatment for the Wishing Well
5 Wastewater Treatment Facility?

6 A. Yes.
7

8 Q. What is RUCO's position on including the Wishing Well Wastewater
9 Treatment Facility in rate base?

10 A. Based on its analysis of the facility and on data responses to the ACC
11 Staff engineer assigned to the case, RUCO is recommending that only fifty
12 percent of the costs associated with Wishing Well Wastewater Treatment
13 Facility should be given rate base treatment.
14

15 Q. Why is RUCO recommending that only fifty percent of the costs
16 associated with Wishing Well Wastewater Treatment Facility should be
17 given rate base treatment?

18 A. Based on the aforementioned data response to ACC Staff, it appears that
19 the facility is overbuilt and that fifty percent of it is excess capacity.
20 Because of this, RUCO believes that the Company should be permitted to
21 recover only half of the costs through rates from existing customers.
22

1 Q. Will the Company be able to recover the remaining fifty percent in a future
2 rate case proceeding?

3 A. Yes, assuming that the plant is being fully utilized and is serving additional
4 customers in the Mohave Wastewater District.

5
6 Q. Is RUCO recommending an accounting treatment to defer unrecovered
7 costs associated with the unused portion of the facility?

8 A. Yes. RUCO is recommending that Arizona-American be permitted to book
9 any unrecovered costs, such as depreciation expense, in a deferral
10 account that would allow the Company to recover the costs in a future rate
11 case proceeding when the Wishing Well Wastewater Treatment Facility is
12 being fully utilized to provide service.

13
14 **TANK MAINTENANCE**

15 Q. Briefly explain what Arizona-American is seeking in regards to tank
16 maintenance.

17 A. Arizona-American is seeking to establish a reserve that will provide the
18 Company with funds to inspect and maintain its water tanks over a ten-
19 year cycle. The Company has obtained proposals through a request for
20 proposals ("RFP") process to estimate what the costs will be to provide the
21 required maintenance and have levelized the estimates over a ten-year
22 period.

1 Q. Has the Company contracted with any of the firms that provided estimates
2 through the RFP process?

3 A. No. Based on data responses from the Company, none of the proposals
4 were accepted. However, any future imprudent or unreasonable
5 expenditure incurred by the Company in connection with the program
6 could certainly be addressed in a future rate case proceeding in order to
7 insure that ratepayers are not being overcharged for work that is not
8 needed.

9
10 Q. Does RUCO support the Company's request for a tank maintenance
11 reserve?

12 A. Yes. At this point in time RUCO believes that the cost estimates obtained
13 from the RFP process are reasonable. RUCO also believes that
14 ratepayers will benefit from regular preventive maintenance and upkeep
15 on large plant assets such as water tanks. RUCO has supported similar
16 programs in the past such as one that Arizona Water Company has in
17 place.

FUEL AND POWER SUPPLY ADJUSTMENT MECHANISM

Q. Does RUCO support the Company's request for a fuel and power supply adjustment mechanism?

A. No. Water providers have requested such mechanisms in the past and the Commission has consistently rejected them. RUCO believes that the Company's request in this case should be rejected also.

Q. Does Arizona-American have such a mechanism in place for any of the Company's systems?

A. No. Currently the Company does not have a fuel and power supply adjustment mechanism.

Q. What is the Company's rationale for a fuel and power supply adjustment mechanism?

A. Company witness Sheryl L. Hubbard argues that such a mechanism would shield the Company from electric and natural gas rate increases and eliminate earnings erosion.

Q. What criteria must a utility meet to warrant the authorization of an automatic adjustor mechanism?

A. The Arizona Court of Appeals addressed the eligibility requirements of automatic adjustment mechanisms in Scates v. Arizona Corporation Commission. The court indicated that such mechanisms are restricted to

1 fluctuations in certain narrowly defined operating expenses. The Arizona
2 Corporation Commission also defined automatic adjustor mechanisms as
3 applying to expenses that routinely or widely fluctuate. The ACC stated
4 the following regarding automatic adjustor mechanisms:

5 The principal justification for a fuel adjustor is volatility in fuel
6 prices. A fuel adjustor allows the Commission to approve
7 changes in rates for a utility in response to volatile changes
8 in fuel or purchased power prices without having to conduct
9 a rate case. (Arizona Public Service Company, Decision No.
10 56450, at page 6, dated April 13, 1989)
11

12 Q. Do you believe that the electric or natural gas rate increases that Ms.
13 Hubbard has cited meet the criteria stated above?

14 A. No. Electric and natural gas increases are not extraordinary and virtually
15 all business and residential customers have to make allowances for them
16 in their budgets. The approval of such a mechanism in this case would
17 also provide a disincentive for the Company to control costs since it could
18 simply pass utility rate increases through to its captive customers.
19

20 Q. Does your silence on any of the issues, matters or findings addressed in
21 the testimony of any of the witnesses for Arizona-American constitute your
22 acceptance of their positions on such issues, matters or findings?

23 A. No, it does not.
24

25 Q. Does this conclude your testimony on Arizona-American?

26 A. Yes, it does.

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

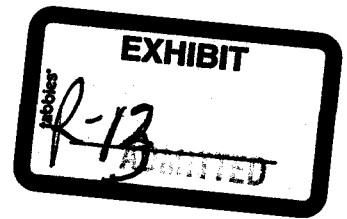
RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase

ARIZONA-AMERICAN WATER COMPANY



DOCKET NO. W-01303A-08-0227

DOCKET NO. SW-01303A-08-0227

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY, CRAA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 3, 2009

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state the purpose of your surrebuttal testimony.

A. The purpose of my testimony is to respond to Arizona-American Water Company's ("Arizona-American" or "Company") rebuttal testimony on RUCO's policy recommendations for the Company's water and wastewater operations in Maricopa and Mohave Counties.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, I filed two pieces of direct testimony on this case with the Arizona Corporation Commission ("ACC" or "Commission") on January 9, 2009. My direct testimony addressed both the policy issues and the cost of capital issues associated with Arizona-American's application requesting a permanent rate increase ("Application") based on a test year ended December 31, 2007 ("Test Year").

...

1 Q. Are you also filing surrebuttal testimony on the cost of capital issues
2 associated with this case?

3 A. Yes. I have filed under separate cover, surrebuttal testimony on the cost
4 of capital issues associated with the case.
5

6 Q. How is your policy surrebuttal testimony organized?

7 A. My policy surrebuttal testimony is organized into three sections. First, the
8 introduction I have just presented and second, the summary of my
9 testimony that I am about to give. Third, I will explain the positions that
10 RUCO and Arizona-American have taken on the various issues that were
11 addressed in my direct testimony.
12

13 **SUMMARY OF ARIZONA-AMERICAN'S REBUTTAL TESTIMONY**

14 Q. Have you reviewed Arizona-American's rebuttal testimony?

15 A. Yes. I have reviewed Arizona-American's rebuttal testimony filed on
16 February 12, 2009.
17

18 Q. Please summarize Arizona-American's rebuttal positions on the issues
19 that were addressed in RUCO's direct testimony.

20 A. Arizona-American has adopted a number of the adjustments that were
21 presented in the direct testimony of RUCO witnesses Rodney L. Moore
22 and Timothy Coley. As can be seen in the rebuttal testimony of Company

1 witness Sheryl L. Hubbard, Arizona-American has adopted, either partially
2 or in full, Mr. Moore's recommended operating expense adjustments on
3 labor expense, waste disposal expense, chemicals expense, management
4 fees, rate case expense and miscellaneous expense. In regard to rate
5 base adjustments, Company witness Linda J. Gutowski has accepted
6 several of Mr. Coley's recommended adjustments including projects that
7 were mistakenly included in the Company's Sun City West Water District
8 as opposed to the Agua Fria Water District, and the removal of post-test
9 year plant in the Company's Paradise Valley Water District. The
10 unresolved operating expense and rate base adjustments between the
11 Company and RUCO will be discussed in detail in the surrebuttal
12 testimony of Mr. Moore and Mr. Coley.

13
14 **IMPUTED AIAC**

15 Q. Are Arizona-American and RUCO in agreement on the issue of imputed
16 advances in aid of construction ("AIAC")?

17 A. Yes. Arizona-American agrees with RUCO's position that the amortization
18 of the imputed AIAC is a known and measureable post-test year event and
19 that the Commission should adopt the Company-proposed treatment of
20 imputed AIAC.

WHITE TANKS PLANT CWIP

Q. Have you reviewed Arizona-American's rebuttal testimony on the White Tanks Plant?

A. Yes. I have reviewed the rebuttal testimony of Company witnesses Paul G. Townsley, Christopher C. Buls, Bradley J. Cole and Thomas M. Broderick.

Q. Has the testimony of the aforementioned Arizona-American witnesses persuaded RUCO to change its position on the White Tanks Plant?

A. No. RUCO continues to recommend that the Commission reject the Company's request to include \$25 million of White Tanks Plant construction work in progress ("CWIP") in rate base. As I stated in my direct testimony, RUCO has consistently taken the position that CWIP fails the used and useful standard which is the basis for allowing recovery of utility plant in rates. In regard to the White Tanks plant specifically, RUCO's past support for the White Tanks Plant has, and continues to be, that existing ratepayers should not have to pay for plant that is clearly intended for future customers.

...

1 Q. The Company has stated in its rebuttal testimony that RUCO opposes its
2 request to extend the collection period for the hook-up fees through 2020,
3 is this correct?

4 A. No. There appears to be some confusion on this point that I would like to
5 clear up. As I stated on page 14 of my direct testimony on policy issues,
6 RUCO supports the Company's request to extend the collection period for
7 the hook-up fees through 2020. However on page 17 of my direct
8 testimony on policy issues I also stated that none of Mr. Broderick's
9 recommendations regarding the WHU-1 hook-up fee be adopted by the
10 Commission and that the Company should continue to adhere to the
11 provisions of Decision No. 69914. What I should have said was that with
12 the exception of extending the collection period for the hook-up fees
13 through 2020, the Company should continue to adhere to the provisions of
14 Decision No. 69914 in regard to matters pertaining to the White Tanks
15 Plant. Hopefully this will resolve this point.

16
17
18
19
20
21 ...
22

WHITE TANKS PLANT O&M DEFERRAL MECHANISM

Q. Has RUCO changed its position on the Company's request for an adjustor mechanism, similar to an arsenic cost recovery mechanism ("ACRM"), to recover deferred O&M costs associated with the White Tanks Plant?

A. No. For the reasons given in my direct testimony on policy issues, RUCO still believes that the Commission should deny the Company's request for an ACRM-like mechanism to recover O&M costs.

Q. Please respond to the Company's allegation that during the prior White Tanks Plant financing application proceeding, RUCO supported Arizona-American's request to seek a cost recovery mechanism in the next permanent rate case.

A. RUCO's position during the White Tanks Plant financing application proceeding was that Arizona-American can request whatever it wants to request in its next permanent rate case proceeding. That did not mean that RUCO would be in full support of whatever the Company would request.

TUBAC ACRM

Q. Does RUCO still support Arizona-American's request for an ACRM for the Company's Tubac Water District?

A. Yes.

1 Q. Does RUCO have any position on either the Central Plant or the Point-Of
2 Use options for removing arsenic from water in the Tubac Water District?

3 A. No. However, RUCO can see why the Company favors the less labor
4 intensive and less customer intrusive Central Plant option.

5
6 Q. Is it RUCO's understanding that no final cost on arsenic removal plant for
7 the Tubac Water District will be established in this proceeding or that the
8 costs will be included in the rates established in this proceeding?

9 A. Yes. RUCO understands that no recovery of final costs will be determined
10 in this proceeding. Final costs will be determined later after the plant is
11 constructed and is providing service to ratepayers. The Company will
12 then apply for step-one and two ACRM surcharges, as it has in the past,
13 to recover its capital and O&M costs associated with the plant. As I stated
14 in my direct testimony, RUCO will take part in the review of the Company's
15 Tubac Water District ACRM filings as it has reviewed all of the prior ACRM
16 filings resulting from rate cases that RUCO has intervened in.

17
18 **PARADISE VALLEY PUBLIC SAFETY SURCHARGE**

19 Q. What is the Company's rebuttal position on fire flow improvements in
20 Paradise Valley?

21 A. Company witness Broderick has testified that Arizona-American is
22 withdrawing its request to re-establish the Paradise Valley Water District

1 Public Safety Surcharge to fund its remaining discretionary fire-flow
2 projects. Mr. Broderick stated that the proceeds from the existing High
3 Block Usage Surcharge, which are being treated as CIAC, will be
4 adequate to recover the costs associated with both the initial fire flow
5 study that the Company conducted in the early stages of the project, and
6 the costs associated with the suspended Phase 3b fire flow project. Mr.
7 Broderick is proposing that the High Block usage Surcharge be eliminated
8 at the conclusion of this case and that the Public Safety Surcharge remain
9 at zero.

10
11 Q. Is RUCO still recommending that the Commission adopt its recommended
12 monthly public safety surcharge?

13 A. No. On Friday, February 20, 2009, RUCO's Director, RUCO's Chief Legal
14 Counsel and I met with the Mayor of the Town of Paradise Valley, the
15 Town Attorney, the Town Manager, a member of the Town Council, and a
16 Paradise Valley resident, who is serving on the citizen's advisory
17 committee on fire flow issues, to discuss this matter. During the meeting,
18 the representatives from the Town of Paradise Valley expressed their
19 desire to suspend any remaining fire flow improvement projects. As a
20 result of this meeting, RUCO is withdrawing its recommended monthly
21 public safety surcharge and is recommending that the Commission adopt
22 the Company's request to eliminate the High Block Usage Surcharge at

1 the conclusion of this case and to leave the Public Safety Surcharge set at
2 zero.

3
4 **PARADISE VALLEY SYSTEM BENEFITS SURCHARGE**

5 Q. Does RUCO still support the Company-proposed Paradise Valley System
6 Benefits Surcharge?

7 A. Yes. As I stated in my direct testimony on policy issues, RUCO is aware
8 of landscape conversion programs and other types of public awareness
9 programs that could be funded by the Company-proposed surcharge and
10 believes that both the Company and ratepayers can derive benefits from
11 these types of programs. For this reason RUCO continues to recommend
12 that the Commission adopt the Company-requested Paradise Valley
13 System Benefits Surcharge.

14
15 **PARADISE VALLEY CAP SURCHARGE MODIFICATIONS**

16 Q. Is RUCO recommending any changes to the existing Paradise Valley CAP
17 Surcharge?

18 A. No.
19
20
21
22

WISHING WELL WASTEWATER TREATMENT FACILITY

Q. Has RUCO changed its position on including the Wishing Well Wastewater Treatment Facility in rate base?

A. No. Based on RUCO's analysis of the facility and on data responses to the ACC Staff engineer assigned to the case, RUCO believes that the facility is overbuilt and that fifty percent of it is excess capacity. Consequently, RUCO continues to recommend that only fifty percent of the costs associated with Wishing Well Wastewater Treatment Facility should be given rate base treatment.

Q. Does RUCO still recommend that the Company be permitted to recover the remaining fifty percent in a future rate case proceeding?

A. Yes. RUCO continues to recommend that Arizona-American be permitted to book any unrecovered costs, such as depreciation expense, in a deferral account that would allow the Company to recover the costs in a future rate case proceeding when the Wishing Well Wastewater Treatment Facility is being fully utilized to provide service to ratepayers.

TANK MAINTENANCE

Q. Has the Company made changes to its request for a tank maintenance program?

A. Yes. The Company has revised its request for a tank maintenance program and has updated its cost estimates.

Q. Does RUCO support the Company's revised request for a tank maintenance reserve?

A. Yes. RUCO witness Moore has updated his operating expense recommendations to reflect the Company-proposed changes. RUCO continues to believe that ratepayers will benefit from regular preventive maintenance and upkeep on large plant assets such as water tanks and that any imprudent or unreasonable expenditure incurred by the Company in connection with the program can be addressed in future rate cases in order to insure that ratepayers are not being overcharged for work that is not needed.

FUEL AND POWER SUPPLY ADJUSTMENT MECHANISM

Q. Is the Company still seeking a fuel and power supply adjustment mechanism?

A. Yes.

1 Q. Has RUCO changed its position on the Company's request for a fuel and
2 power supply adjustment mechanism?

3 A. No. For all of the reasons presented in my direct testimony on policy
4 issues, RUCO continues to recommend that the Commission reject the
5 Company's request for a fuel and power supply adjustor mechanism.
6

7 Q. Does your silence on any of the issues, matters or findings addressed in
8 the rebuttal testimony of any of the witnesses for Arizona-American
9 constitute your acceptance of their positions on such issues, matters or
10 findings?

11 A. No, it does not.
12

13 Q. Does this conclude your surrebuttal testimony on Arizona-American?

14 A. Yes, it does.

EXHIBIT

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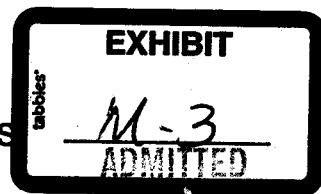
M-1
ADMITTED

Tubac Arsenic Removal Cost Breakdown

2/2/2009

Item	Description	Cost
1	Installation of Arsenic Removal Vessels	\$ 965,000.00
2	12-in Transmission Line	\$ 465,000.00
3	Consulting Engineering	\$ 245,000.00
4	AZ-Am Internal Costs - AFUDC, Labor, Overhead, Labor Overhead	\$ 326,000.00
5	Construction Contingencies	\$ 300,000.00
Total		\$ 2,301,000.00

BEFORE THE ARIZONA CORPORATION COMMISSION



COMMISSIONERS

Kristin K. Mayes, Chairman

Gary Pierce

Sandra D. Kennedy

Paul Newman

Bob Stump

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT

Docket No. W-01303A-08-0227

Docket No. SW-01303A-08-0227

Notice of Filing and Direct Testimony (Issues)

by

Marshall Magruder

This filing has been mailed to known and interested parties shown in the Service List.

Respectfully submitted on this 9th day of January 2009

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1
2
3
4
5
6 **DIRECT TESTIMONY**
7 **(Issues)**
8

9 **by**

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11 **MARSHALL MAGRUDER**
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19
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22 **9 January 2009**
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27

28 **In**

29
30 **ACC Docket No. W-01303A-08-0227**

31 **and**

32 **ACC Docket No. SW-01303A-08-0227**
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Part 1 – BACKGROUND AND INTRODUCTION

1.1 INTRODUCTION

Q. Please state your name, occupation and business address.

A. My name is Peyton Marshall Magruder, Jr. I am a customer and ratepayer for Arizona-American Water Company, a public service company that serves the Tubac Water District, where I have been active in various community projects including the Tubac Community Center Foundation.

I have several part-time jobs including as a Senior Scientist and Information Systems Architect for Integrated Systems Improvement Services (ISIS), Inc. in Sierra Vista, Arizona, with work involving information warfare, systems architectures, electronic and communications intelligence systems test plans, information assurance, and information technology services. I am Systems Engineer and Training Systems consultant for Imagine CBT, Inc., at Raytheon Naval and Maritime Systems in San Diego with engineering work involving US and Royal Navy aircraft carrier and amphibious warfare ship's command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) systems, and training systems.

In early 2008 I assisted in preparation of a proposal to the Department of Homeland Security involving creating a National Training Center for the US Border Patrol in Dallas, Texas, and training person operating and maintaining the Secure Border Initiative (SBI) Program's "Virtual Fence", initially in the Tucson Sector where over 50% of both drug and undocumented aliens enter the U.S.

I also work as a Senior Tax Advisor Level 3 for H&R Block in Tucson, several days a week.

I retired from Raytheon/Hughes Aircraft Company as a Senior Systems Engineer after nearly 18 years and am a retired Naval Officer with over 25 years service. Please see Attachment A for additional work experience descriptions.

As an instructor in the University of Phoenix MBA programs, I have taught courses on Operations Management for Total Quality and Managing R&D and Innovation Processes. I am preparing a course curriculum on the DoD architecture framework systems engineering process.

In addition, I am the Vice President of the Martin B-26 Marauder Historical Society and am the Fund Raising Chairman for an ongoing five million dollar "Lasting Legacy" fund drive to endow the MHS Marauder International Archives and restoration of a B-26 Marauder at the Pima Air and Space Museum/Arizona Aerospace Foundation, in Tucson.

My office and home address is PO Box 1267, Tubac, Arizona, 85646.

Q. Have you previously testified before this Commission?

A. Yes, including several appearances in the following:

- a. Arizona Power Plant and Transmission Line Siting Case No. 111 (TEP'CEC Application);

- 1 b. ACC Docket No. E-01032C-00-0951, the Citizens Purchase Power and Fuel Adjustment
2 Clause (PPFAC) hearings;
3 c. ACC Docket Nos. E-01033A/E-01032C/ and G-01032C-02-0914, the UniSource-Citizens
4 Acquisition hearings;
5 d. ACC Docket No. E-04230-03-0933, the UniSource-Sahuaro Acquisition hearings;
6 e. ACC Docket No. E-01032A-99-0401, Service Quality issues, analysis of transmission
7 alternatives and proposed plan of action in Santa Cruz County, reopened in 2005;
8 f. ACC Docket No. G-04204A-06-0463, a UNS Gas Rate Case;
9 g. ACC Docket No. E-04204A-06-0783 a UNS Electric Rate Case; and
10 h. ACC Open Meetings including gas line safety hearings and various workshops.
11 In cases a to g. above I filed testimony and made appearances.

12
13 **Q. What is your educational background and technical society memberships?**

14 **A.** My latest degree is a Master of Science in System Management (MSSM) with majors in
15 human factors and R&D from the University of Southern California with "A" in every course. The first
16 graduate degree was awarded by the Naval Postgraduate School, Monterey, California, in Physical
17 Oceanography, the study of the physics of the ocean with several electrical engineering (EE)
18 courses involving underwater acoustics. In addition, advanced graduate-level EE courses at the
19 University of Rhode Island involving acoustic array design, electronic beam forming and steering
20 have been taken. Initially, a Bachelor of Science Degree and Commission in the United States Navy
21 was awarded by the United States Naval Academy with extra courses in Operations
22 Research/Analysis and the History of Russian Naval Tactics. I have been a member of the American
23 Society of Naval Engineers, the premier naval shipbuilding organization. I am a life member of the
24 Naval Academy Alumni Association, the Navy League, and the Naval Surface Warfare Association
25 and a member of the Armed Forces Communications-Electronics Association (AFCEA) and the
26 Naval Submarine League. I have taken many additional courses included in Attachment A.

27 **Q. Could you explain what you do as a Systems Engineer?**

28 **A.** This is the engineer who coordinates, plans, schedules, integrates, and manages engineers
29 of various other disciplines. The Systems Engineer is the technical lead or technical director for a
30 reasonable sized project who determines the customer's need and analyzes the requirements,
31 usually writes the system and subsystem specifications, prepares and makes important trade-off
32 technical decisions, manages the entire system development process and leads the system and
33 subsystem tests to ensure the product (e.g., the system) accomplishes the customer's requirements
34 and satisfies the need and requirements. The integration and synthesis of discipline uses inputs
35 from mechanical, electrical, civil, safety, human factors, integrated logistics, maintenance, reliability,

operator and maintenance training development, aerospace, acoustic, computer systems, software, hardware, structural, reliability, production, test and test equipment engineers and other specialist disciplines are the primary roles for a systems engineer. System Engineering tasks usually involve developing the system architecture, evaluating the design, performing trade-studies, determining performance criteria, continually updating design characteristics, managing cost-schedule-performance risks, estimating costs, and tracking and monitoring all systems tasks assigned. The Systems Engineer ensures adequate parts are ordered and spares built, oversees the assembly process, develops and manages unit and system tests, ensures the product is properly packaged, transported, delivered, with appropriate operational and logistics support, training and both preventative and corrective maintenance planning established to ensure the customer receives a quality product, on-time, within-budget and achieves all performance criteria. As the Systems Engineer for dozens of very different and diverse projects summarized in Appendix A. The Tubac water system is a rather simple, straightforward system, compared to these more complex ones.

Q. How long have you been interested in the matter in this hearing?

A. I appeared before the Commission's Public Comments session during the last AAWC rate case and presented a paper concerning rate structure, attached as Appendix B, Exhibits, Exhibit MM-1, at that time. Other than the actual approved rate increased in that case, these comments, especially involving the magnitude of proposed rates in the previous case and in this case are extreme. In general, my interest in these matters will continue looking at viable alternatives and efficiencies to reduce the overall rate impacts. As shown in Exhibit MM-1, conservation measures should be used as a primary component for rate design. Conservation of our surface and ground water is critical for human survival in Arizona.

1.2 PURPOSE OF TESTIMONY

Q. What is the purpose of this testimony in this proceeding?

A. The purpose of this testimony is to present several issues that are important for the Tubac Water District, and in most cases, for all AAWC Water Districts. The following issues are discussed in this testimony. These are presented in Part II that follows.

Q. Are you being employed or paid by any one for your testimony in this proceeding?

A. No. I am doing this as a service to my community, without compensation.

Q. Will you have any witnesses on your behalf?

A. There are some individuals in Tubac who have expressed interest in participating with me. I would like to retain the option to include their pre-filed testimony or oral testimony as witness when I present my case. During the pre-hearing Procedural Conference, I will make this clear to all parties.

1 **Part 2 – ISSUES IN THIS TESTIMONY**

2 **2.0 SUMMARY OF ISSUES.**

3
4 This Testimony is submitted according to the second Rate Case Procedural Order of 8 August 2008.
5 As required by the Rate Case Procedural Order, the scope of Part I of my testimony covers various
6 "issues". The following are issues identified to date for these proceedings:

7 Issue (Rate Design) No. 1. Should the goal of water conservation significantly drive water
8 volumetric rates by increasing the cost of water significantly as consumption increases?

9 Issue (Rate Design) No. 2. Should future capital expenses for the Tubac Arsenic Treatment
10 Plant be considered in this proceeding?

11 Issue (Rate Design) No. 3. Should all AAWC Water Districts be consolidated?

12 Issue (Cost) No. 4. Should ratepayers fund pre-hearing AAWC witness training?

13 At present, no issues for AAWC Sewage Water Districts are included in this testimony.
14

15 **2.1 ISSUE (Rate Design) No. 1.**

16 **SHOULD THE GOAL OF WATER VOLUME RATES BE DESIGNED TO**
17 **ENCOURAGE WATER CONSERVATION?**
18

19 **Q. Why do you consider water conservation critical?**

20 **A.** The Tubac Water District is located within the ADWR Santa Cruz Active Management Area
21 (SCAMA) that has two unique management goals established when the Arizona State Legislature
22 created it. These SCAMA goals include:

23 a. Maintaining sustainability

24 b. No changes in water table

25 Maintaining Sustainability.

26 The SCAMA is the only Water Management Area that is presently sustaining its ground water
27 in Arizona. As stated in the 2005 Santa Cruz County Comprehensive Plan, see Exhibit MM-3, when
28 the total population in the Upper Santa Cruz River Watershed in the SCAMA adds approximately
29 31,000 people over the 2004 population, subdivisions will not be issued Assured Water Supply
30 (AWS) certifications. Water use in the SCAMA is not permitted to become unsustainable. Thus,
31 protection of our "ground" water is critical. An important component is for water companies to
32 cooperate and collaborate in this matter. AAWC Tubac Water District has AWS certifications for all
33 its present customers, but if additional development occurs, eventually, AWS certifications will not be
34 available. This is unlike the other AMA, such as Tucson, Phoenix or Prescott, as they aren't required
35

1 to be sustainable until 2025, and reaching that goal is beyond the anticipated tenure of today's
2 politicians. SCAMA must retain sustainability.

3 No Changes in the Water Table.

4 The "rule" for meeting this goal is being submitted to the Arizona Attorney General by ADWR.
5 In general, SCAMA does not have an aquifer like most other AMAs, but has about six identified
6 "micro-basins" that fill and drain, as underground water flows from the southern Mexican border to
7 the boundary of the Pima AMA, several miles north of the Santa Cruz-Pima County line. The
8 SCAMA must continue to provide its normal water volume to the Tucson aquifer, at this boundary,
9 which has been described as sort of a Niagara waterfall from our shallow micro-basins. In each
10 micro-basin, also described as underground pools of water with small waterfalls from one basin to
11 the next, the water table will increase and decrease significantly between one rainstorm and the
12 next. Some "pools" will change from an empty to full state and overflow into the next pool. This
13 causes variations in the depth of water in wells that have been measured over many decades. The
14 proposed rule is to use the standard deviation of these well water depths, using a 100-year Monte
15 Carlo model, to determine impacts of new water users on the system before granting AWC
16 certifications.

17
18 **Q. How can AAWC Tubac Water District participate with SCAMA's goals?**

19 **A.** If a rate structure was implemented in which the cost per 1000 gallons significantly increased
20 as water use increased, customers would have a financial incentive to conserve and average
21 household use would decline. The present structure very slightly increases the cost per 1,000
22 gallons only moderately, and thus does not sufficiently encourage users to reduce consumption.

23 Thus a complete restructure of rates is required to effectively use price signals to encourage
24 conservation. Minor changes will not make water conservation a rate-driver.

25 **Q. Do you know where increasing costs per 1,000 is being implemented for this purpose?**

26 **A.** Yes. Adjacent to the Tubac Water District has a rate structure shown in Exhibit MM-2 in
27 Appendix B. The rates in this water company increase significantly, by 500%, from lower water
28 monthly water usage. When compared, in Exhibit MM-2, Table 1 (copied below), at highest water
29 usage of 20,000 gallons, the monthly volumetric bill will be over 400% than the present rates and
30 over 200% higher than even the proposed volumetric charge. With this approach, the "price signals"
31 must be noted and water conservation observed by these customers. This comparison does not
32 include the proposed basic charge or the proposed Arsenic Cost Recovery Surcharges (basic and
33 volumetric) for the rates shown in Exhibit MM-2 Table 1 below.
34
35

Table 1 – Rate Comparison of Monthly ¾-inch Residential Rates at Various Volume Levels for AAWC-Tubac Water District and ASPOA, Basic Service Charge and Arsenic Cost Recovery Surcharges (ACRS) [from Exhibit MM-2]

Monthly Water Usage	AAWC-Tubac Water District		ASPOA
	Present	Proposed	
5,000 gallons	\$10.41	\$19.97	\$20.00
10,000 gallons	\$24.66	\$44.22	\$64.00
15,000 gallons	\$38.91	\$68.47	\$114.00
20,000 gallons	\$53.16	\$92.72	\$214.00
Service Charge			
Basic Service	\$19.68	\$32.50	\$20.00
Arsenic Cost Recovery Surcharge (ACRS)			
Basic ACRS Charge	\$0.00	\$25.98/month	\$0.00
Volumetric ACRS Charge	\$0.00	\$3.14/1000 gallons	\$0.00

Q. What happens when the Service Charge and Arsenic Cost Recovery Surcharges are in a typical monthly bill?

A. As shown in Table 2 of Magruder Exhibit MM-2, total monthly bills are compared, including all water delivery charges (copied below).

Table 2 – Total Monthly Bill Comparisons between ¾-inch Residential Rates for AAWC Water District and ASPOA [from Exhibit MM-2]

Monthly Water Usage	AAWC-Tubac Water District		ASPOA
	Present	Proposed	
5,000 gallons	\$30.09	\$94.15	\$40.00
10,000 gallons	\$44.34	\$134.10	\$104.00
15,000 gallons	\$58.59	\$174.05	\$134.00
20,000 gallons	\$72.84	\$214.00	\$234.00

Q. What is your conclusion about water conservation impacts on rates?

A. With monthly bills in Table 2, the significant changes will drive water conservation, the rationale of using increasing block structure rate designs. The virtually flat block structure proposed will not produce water conservation. An increasing block structure with significant rate changes is an important element in conserving water and is recommended.

Q. Will you provide the rate structure costs when submitting your rate structure Testimony?

A. No. On 17 December 2008, the company informed all parties it would provide its spreadsheet program to the parties on 9 February with its Rebuttal.¹ The rate structure proposals are due 20 January. It will not be possible to determine options for rate structures until after 9 February 2009.

¹ AAWC letter to Parties of the Docket, "Rate Consolidations" filed 17 December 2008.

2.2 ISSUE (Rate Design) No. 2.

SHOULD ANY FUTURE CAPITAL EXPENSES FOR THE TUBAC ARSENIC
TREATMENT PLANT BE CONSIDERED IN THIS RATE CASE?

Q. Why do you oppose including the Tubac Arsenic Treatment Plant costs in this case?

A. There are several reasons.

First, the recent quarterly average Arsenic levels have decreased significantly since the one case at 36 ppb cited in this summer's EPA letter of July 2008. The company reported to all Tubac District ratepayers average quarterly readings as follows:

<u>Quarter</u>	<u>Average Arsenic Reading</u>
3 rd of 2008	24 ppb
4 th of 2008	25 ppb

Based on this data, it should be possible for the company to request a review of the EPA's denial of a three-year extension for compliance as these results are considerably below the 35 ppb maximum required by the EPA.

Second, this plant has not had its design presented to local ratepayers, and discussed in terms of its features, benefits, costs, and architectural landscaping needs that might have environmental impacts. AAWC has promised it would let us know this kind of information before it when forward.

Third, this construction project has not yet started, and obviously is well outside the "test year" thus, should not be qualified for rate base treatment.

Fourth, Mr. Broderick's Testimony of 20 July 2008, on page 25 stated "a developer will contribute approximately \$1 million toward the facility." In response to a data request², it was found that no agreement exists with this developer, that will also solve this "developer's fire flow pumping and water storage requirements" that is obviously independent of the arsenic removal process for drinking water. The AAWC response further describes the developer's "nearing completion of a water master plan and cost analysis to evaluate their various alternatives to provide required pumping and storage. Once an alternative is chosen, an agreement will be pursued between parties." And the AAWC response also stated, "No agreement exists at this time, and one may be not finalized by the time of the hearing."

Fifth, the costs for this facility are all outside the Test Year, thus the "used and useful" assessment cannot be made.

Based on these five factors:

² See Exhibit MM-4 in Appendix B for Magruder Data Request MM 1-5. All quotes in this issue are from that Data Request.

- (1) Unsure of future arsenic impact and requirements with EPA;
- (2) Facility design has not been made public and appears to be incomplete;
- (3) Project not yet started construction;
- (4) Unknown developer agreements and an "approximate" \$1 million contribution toward the cost of the Arsenic Treatment Facility; and
- (5) Expenses are outside the Test Year, have not met the required "Prudency" or "Used and Useful" assessments, that can not now be completed by the ACC Staff, as required, before capital costs for the Tubac Arsenic Treatment Facility are included in rates.

It is clear that both adequate and reliable information is not available to make any determinations impacting fair and reasonable rates.

Conclusion. A prudent decision concerning a Tubac Arsenic Treatment Facility cannot be made before these proceedings have been completed.

Recommendations. That no expenses for an Arsenic Treatment Facility for the Tubac Water District and that implementation of any ACRM stages or costs be considered in these proceedings but in another proceeding when the supporting facts are known and reviewed.

2.3 RATE DESIGN ISSUE (Rate Design) No. 3.

SHOULD ALL AAWC WATER DISTRICTS BE CONSOLIDATED?

Q. What are the possible benefits if the AAWC Water Districts rate were consolidated?

A. There are several, including reduced administrative costs, fewer "rates" to manage and file tariffs, better AAWC management focus on each rate category, equalization of disparities between different water districts, and fewer rate cases with considerable cost savings.

There are too many different tariffs used by the company to manage effectively. With fewer rate tariffs, the company will be able to focus on the remaining rate categories and better serve its customers. One-time costs for smaller districts would be absorbed in larger customer districts with much less impact than the same one-time cost for a smaller district. There would be one rate case for the six water districts instead of six separate cases. Additional workloads for the company, RUCO and ACC Staff would be avoided if only one rate case was being filed.

An example of equalization of disparities between different water divisions; assume the following two water districts, using hypothetical numbers to show effects of consolidation:

Factor	Tubac District (a)	Large District (b)
1. Number of customers	500	20,000
2. Service Charge	\$40.00	\$20.00
3. Monthly Revenue (1 x 2)	\$20,000	\$400,000
		<u>Consolidated</u>
4. Number of customers (1a + 1b)		20,500
5. Service Charge [(3a + 3b) / (1a + 1b)]		
= \$420,000/20,500 =		\$20.48

In this example, consolidating increased the Large District's rate by \$0.48 and reduced the Tubac District rate by \$19.52. Now, is consolidating "fair and reasonable" or not? In my opinion, is fair and reasonable. In addition to "cost of service" example, the same impacts would apply for the water volume rates.

Due to fundamental differences between water and waste water districts, it appears reasonable for the latter waste water companies to be consolidated but separately from the water companies.

In the recent UNS Electric rate case, the Mohave and Santa Cruz County residential and small commercial rates were consolidated. The smaller Santa Cruz County saw an 8% reduction in small business rates while Mohave County rates increased about 2% based just on consolidating. This was the only electric company that had dissimilar rates for two different areas in Arizona.

Conclusion, consolidation benefits all customers.

Recommendation, after "wargaming" the AAWC spreadsheets, it is highly probably this will be confirmed in this party's Surrebuttal Testimony.

2.4 ISSUE (Cost No. 1).

SHOULD RATEPAYERS FUND PRE-HEARING AAWC WITNESS TRAINING?

Q. What has AAWC claimed as necessary "rate case costs" that appear unreasonable?

A. Mr. Broderick's Testimony of 20 July 2008, in Exhibit TMB-3 on page 1, shows a rate case expense of \$10,000 for "Witness Training." In response to a Data Request, AAWC provided information that the goals for this "witness training" are to "enable a Company employee to understand the basics of testifying before the ACC."³ These Company employees are those who have submitted direct, rebuttal or rejoinder testimony. The justification for these expenses is to train these witnesses to "answer questions accurately, truthfully, and concisely" which will "benefit the rate payers who ultimately pay the costs for Company attorney(s), transcripts, briefs, and, perhaps their own attorney(s) if they are part of an intervention."

In my opinion, the pre-filed testimonies also have to include answers that are accurate, truthful and concise. Thus, thus there appears to be a conflict in these statements, or maybe this training for senior management of AAWC, all of whom appear to have been before the Commission before, is more to coach or to agree upon what and what not to say. Implications of such practices are that unethical collaboration between witnesses maybe construed. Even though the company did not state this happened, an appearance of coaching and collaboration is there.

As a ratepayer, I strongly feel that this is a company expense and is more to protect their prior statements or oral statements on the stand, than it is to reduce attorney fees of the company or any other party.

Conclusion. There is no evidence to support funding this expense by the ratepayers.

Recommendation. That all "Witness Training" expenses as a rate case expense be removed from any consideration in this proceeding.

³ See Exhibit MM-5 in Appendix B for Magruder Data Request MM-13. All quotes in this issue are from that Data Request.

Appendix A

Resume of Marshall Magruder

EDUCATION

MS in Systems Management, University of Southern California (1981); MS in Physical Oceanography, Naval Postgraduate School (1970; BS, US Naval Academy (1962)

EXPERIENCE

Over 23 years as Senior Systems Engineer as an associated contractor, consultant, Raytheon-Hughes in systems engineering, training and naval systems, simulation and modeling in C4I; total over 40 years experience with over 20 years of service with the US Navy

- **Large-system development** at all levels
From pursuit, analysis, winning strategy, Request for Proposal (RFP) evaluation, proposal management, system requirements analysis, architectures, specifications, design synthesis, trade-off studies, requirements allocation tracking,
To system, level test planning, deployment, implementation, through sign-off,
For technical systems of all complexities.
- **Developed** Antisubmarine Warfare (ASW), Electronic Warfare (EW), Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) operational concepts, procedures, and tactical employment.
- **Used, operated, and planned** Navy, Army, Air Force, Coast Guard, Joint systems, world-wide.
- **Coordinated multi-platform employment** from sensor to tactical platform to Battle Force to Theater levels.
- **Qualified systems engineer/manager** for trainers, artillery, Command and Control (C2), countermeasures, for any platform.
- **Specialties:** environmental analysis, documentation, sensor/weapon predictions, C4ISR, Electromagnetic and Emission Control (EMCON) decision criteria.
- **Battle Force/Group Tactical Action Officer** (TAO) on 8 aircraft carriers, TAO Instructor, 20 months combat experience.

RECENT (ImagineCBT, ISIS, Raytheon, Hughes, and other) POSITIONS

C4I Architect and C4I Support Plan Lead for the Carrier for the 21st Century (CVX) Delivery Task.

- Completed *CVX C4I Support Plan, v1.0*, Joint Operational Architecture development for Joint and Naval staff space allocations for CVX (1999) and Joint Command and Control (JCC) ship (2002).
- Drafted *CVN 77 Electronics System Integrator (ESI) Statement of Work (SOW)* for WBS Group 400 tasks and IPTs (1999), *Integrated Management Plan*; Royal Navy Future Aircraft Carrier WBS proposal (2002)

Lead Systems Engineer, Operations Analyst and Site Survey Leader for Saudi Arabian Minister of Defense National Operational Command Centers and C4I System (completed August 1997).

- Completed *System Specification, System Description Document, Site Survey, Interface Requirements Documents*

Proposal Technical Volume Manager for the following **winning proposals**:

- Vessel Traffic Service 2000 system, US Coast Guard command center for surface surveillance using radar, visual, communications links. (proposal evaluated A++, won Phase I, Phase II delayed then restructured)
- Anti-submarine Warfare Team Trainer (Device 20A66), an integrated, multi-ship, submarine and aircraft training system for Naval Task Groups. (\$56M contract, best technical, lowest cost)

- 1 • Electronic Warfare Coordination Module (EWCM), an Intelligence/EW spectrum planning and management
2 system for Task Force Command Centers. (won Phase I, best technical)

3 **Assistant Program Manager for the Training Effectiveness Subsystem, Device 20A66**

- 4 • Performance Measurement Subsystem, observed real-time performance of operators, teams, multi-ship and
5 aircraft units during exercises and compared to the standard

6 **Senior Systems Engineer** responsible for writing **specifications** in following **proposals**:

- 7 • Fire Support Combined Arms Team Trainer (FSCATT) *System Specification*, a US Army field artillery multiple
8 cannon and battery training system. (awarded \$118M contract, still under contract)
9 • Warfighter's Simulation 2000 (WARSIM 2000) *System Specification*, a US Army Force XXI Century battalion
10 to theater levels, training system with actual C4I systems. (won Phase I)
11 • Tactical Combat Training System, (TCTS) *Exercise Execution Software Requirements Specification* (SRS) for
12 simulation and computer models to run real-time, driving sensors, weapons and links on 35 ships, 100
13 aircraft and submarines (won Phase I contract, wrote SRS in Phase 2 proposal)

14 **DETAILED DESCRIPTIONS OF EXPERIENCE**

15 The following are more information, arranged chronologically, with dates, duration, position title, program name,
16 followed by accomplishments, and then an overview of the project.

17 **April 2000 to present – ISIS, Inc., primarily as Senior Scientist, Information System Architect, Systems
18 Engineer, Training Systems Analyst and Requirements Analyst.**

19 **Department of Interior Management, Organization and Business Improvement Services (MOBIS) and
20 Professional Engineering Services (PES) proposal analysis (June 2005)**, prepared a detailed
21 requirements and tasks analysis of the RFP) and proposal plan.

22 **General Accounting Office (GAO) (May 2005 – present)**, reviewed and prepared training system
23 development and professional engineering services (PES processes and job descriptions for category 69
24 (training) proposal.

25 **Strategic Services and Support (S3) (April 2005-present)**, attended pre-solicitation conference for the
26 Army Communications-Electronics Command (CECOM), Ft. Monmouth, New Jersey, waiting for formal
27 request for a part of this \$19.25 billion program proposal.

28 **Total Engineering Information Services (TEIS) (Feb. – March, 2005)**, participated as proposal writer, pink
29 and red team member with another company which is prime for an approximately \$12 million, multi-year,
30 contract for the Army Information Systems Engineering Command, Ft. Huachuca, Arizona. Prepared TEIS
31 Risk Management Plan for prime contractor. Presently ISIS is waiting for announcement of selected
32 winners.

33 **Networthiness Certification (Jan. 2005-present)**, prepared proposal for the Army Network Command
34 (NETCOM), awaiting RFP to respond for this several million dollar program involving over 3,200 Army
35 computer programs at all Army installations, worldwide. Prepared Quality Control (QC) and Risk
Management Plan.

Cryptologic Support and Logistic Analysis (Oct. 2004-present), prepared proposal for the Army
Communications-Electronics Command (CECOM), Ft. Huachuca, Arizona, waiting for formal request for
proposal.

Information Warfare Training (2001 - present), USAF Small Innovative Business R&D (SBIR) Phase I
contract, to determine IW training requirements and measure performance in an intelligence, wargaming
system, awaiting possible award for development of an Information Warfare training system for the USAF
Information Warfare Aggressor Squadron.

US Army Virtual Proving Ground (VPG) - Performed C4ISR Architecture Framework development,
implementation and documentation using the DoD *C4ISR Architecture Framework*, v2.0 and for
Operational, Technical and Systems architecture products. (2001-2002).

**Prepared C4ISR architecture framework proposals for U.S. South Command (USSOUTHCOM)
Command Center**, Department of Defense Threat Reduction Agency (DTRA) Operational Command
Center at an Army Command, Virginia, and Government Enterprise Architecture development for
Department of Health and Human Services Command Center programs.

1 **April 2001 to present– C4I Architect, Operations Analyst and Systems Engineer** for Minister of Defence
2 (UK) Future Aircraft Carrier (CVF) program, Raytheon Naval and Maritime Ship Systems (NAMS), San
3 Diego, CA.

4 Prepared for Raytheon Naval Ship & Integrated Systems (San Diego) proposals in April and June
5 2003 with Statement of Work (SOW), Data Item Descriptions (DIDs) and CDRLs for
6 Architecture Assessments (Requirements, Testing) for ten functional mission areas, Global
7 Information Grid (GIG) Evaluations in order for CVF to be interoperable with US Joint forces,
8 and Levels of Information System Interoperability (LISI) using DoD LISI PAID (procedures,
9 applications, infrastructure, data) attributes to determine internal and external interoperability
10 assessments

11 Prepared proposal and performed contract for Raytheon C3I Systems (Fullerton, CA) for the Joint Command
12 and Control Ship (JCC) *JCC Interoperability Study*, including report drafting and preparation, conference
13 presentations and making recommendations to JCC Program Office for ensuring over 400 tactical, logistic,
14 administrative, C4ISR applications work. (2001-02)

15 Prepared proposal and performed contract for Raytheon NAMS (San Diego) for *JCC Reconfiguration Study* to
16 determine requirements to most effectively manage command (C4ISR) onboard JCC. (2001-02)

17 Provided architecture framework proposal inputs and evaluation for US Army Landwarrior III (Future Combat
18 System) for Raytheon C3I Systems (Plano Texas)

19 Provided C4ISR and engineering analysis and proposal preparation for LHA(R), JCC, CVF and other NAMS
20 (San Diego) ship programs (2000-03)

21 **October 2000 to Present (inactive) – MBA Instructor, University of Phoenix**, for “Operations Management
22 for Total Quality” (BUS540) and “Managing R&D and Innovation Processes” (TMGT 540) courses
23 Instructor.

24 Taught these courses in Nogales to Mexican maquiladores managers and in Tucson to Americans managers.

25 Qualified to teach “Program Management”

26 Plan to qualify as FlexNet (online) Instructor.

27 **April 1998 to September 2000 – CVX C4I Architect and C4I Support Plan Leader also Lead Systems
28 Engineer and Requirements Analyst** for CVN 77 and CVX Programs, at Raytheon, San Diego, CA

29 Performed C4I Support Plan analysis in order to understand the DoD C4I Support Plan requirements. Led to
30 an understanding of the recent *DoD C4ISR Architecture Framework, v2.0* and its Operational, Technical
31 and Systems architecture products.

32 Managed team for 3 months to draft and submit plan to NAVSEA (PMS-378) for two customer reviews.

33 Provided interface with CVX and Joint Command and Control (JCCX) Ship to combine architecture
34 development for NAVSEA (PMS-377), drafted task schedule but funding not provided.

35 Proposed an approved Technical Instruction for “Reconfigurable Joint and Naval Staff Space Allocations” in
order to start the CVX/JCC *Operational Architecture* and *Mission Essential Tasks* processes – completed
early 1999. (3 of 14 proposed were approved for study)

Coordinated the AFCEA “Architecture Implementation Course” for RSC at our San Diego site.

Created and drafted CVN 77 *Electronic Systems Integrator (ESI) Statement of Work (SOW)* for the CVN 77
ESI role and RFP in Spring 1999.

Provided various trade studies and options for performing this task for Newport News Shipbuilding.

Established a draft CVN 77/CVX “Total Ship Systems Engineering (TSSE) Plan for our team.

Implemented the Raytheon and Newport News *Integrated Product and Process Development (IPPD)*
processes to structure IPTs, tasks, and work descriptions.

Provided interoperability inputs to UK Future Aircraft Carrier (CVF) Raytheon Qualification letter.

Participated in establishing teaming arrangements with SPAWAR Systems Center, San Diego (SSC-SD).

The CVN 77 is the transition aircraft carrier from the *Nimitz* class, to be commissioned in FY 2008. Two other
evolutionary aircraft carriers, CVNX-1 and CVNX-2 are to be commissioned in FY 2013 and FY 2018,
respectively. The tenth CVX is planned for disposal in FY 2111. Overall manning will be reduced up to 1,740
personnel. Up to 12 Joint, Naval, Combined and Coalition staffs may embark up to 1,000 augmentation
personnel beyond the present capabilities. CVX can embark a Joint (Task) Force Commander with
command and control systems for Operational-Theater and Tactical (service) levels. The ESI role involves
integration of all C4ISR equipment, internal and external communications, navigation, sensors, fire control,
weapons, and associated display and processing systems.

1 **January 1998 to present – H&R Block, Tax Specialist**, seasonal tax preparer (annually, January to April 15),
2 part time, AARP Tax Consulting for the Elderly (pro bono) tax preparer, IRS qualified.

3 **August 1997 to April 1998 – DD 21 Requirements IPT Lead, Systems Verification and Test IPT Lead, and**
4 **Initial Lead Systems Engineer** for the Hughes, then Raytheon, DD 21 Program for NAVSEA, PMS-500 –
5 assigned the CVX Reduced Manning (Automation) Study that led to CVX C4I Support Plan after Raytheon
6 sent “no bid” letter in April 1998.

7 Provided IPPD plans for all systems engineering functions, including workshop participation, for subsystem to
8 total Ship System levels.

9 Managed two Integrated Product Teams (IPTs), about 3 months each, as additional DD 21 personnel were
10 assigned.

11 Conducted Video Teleconferences with IPTs, issued weekly Agenda, Minutes, and led team meetings.

12 Attended Risk Management course and recommended RSC's Prophet™ risk management software tool for
13 DD 21 and other integration programs.

14 Provided the initial *DD 21 Total Ship Systems Engineering (TSSE) Plan*.

15 Coordinated systems engineering modeling and simulation planning.

16 The Future Surface Combatant of the 21st Century (SC-21) Program consisted of both destroyers and cruisers,
17 with the Land Attack Destroyer (DD 21) to be commissioned in FY2009 and an Air Dominance Cruiser in
18 FY2018. I participated in the program implementation and maintenance of collaborative and synergy with
19 both CVX and SC-21 programs and the emergent JCC and Deep Water Programs. [SC 21 is DDX Program]

20 **June 1995 to August 1997 (26 months) – Operations Analyst and Site Survey Team Leader also Naval**
21 **Operations Analyst and Joint Training Analyst, C4I System for National Defense Operations Center and**
22 **Area Command Centers Definition Study - completed August 1997.**

23 Performed pre-contract planning analysis for site survey from battalion to national level.

24 Managed budget for 3 months deployment for the 12 engineers in Saudi Arabia.

25 Conducted interviews and briefs with members of all joint Minister of Defense and Aviation (MODA) staff and
26 all armed forces, including schools and topographic commands.

27 Provided reports, program reviews and TGMIRs for survey and design efforts for the 2 years, including the
28 coordination of all Action Items and Program Management Review Minutes.

29 Created significant inputs to the *System Description Document*, *System Specification* as Lead Systems
30 Engineer, emphasized operational concepts including staffing and workstation operator tasks; operations
31 center and support facility layouts; specifications for a transportable operations center (TOC); system-level
32 communications interfaces including ATM, SATCOM, PTT and RF communications; system hardware and
33 software interfaces including JMCIS, TADIL-S and IDL; operator training; selected over 100 formatted
34 messages (using USMTF) for integration, and overall system performance characteristics.

35 Drafted System Specification for Land Forces Operations Center, deemed excellent by customer.

Prepared *Site Survey Report* and participated in drafting the *Communications Interface Requirements*
Document, presented multiple customer briefs.

Only engineer to start and complete this contract (over \$10M), most of the others were replaced.

The MODA C4I System will provide 13 operations centers, nation-wide, to form a joint service, C4I system,
integrating the four services through 3 command echelons and, for the Land Force will provide their digital
command and control system through 4 echelons.

1995 (two weeks) – Systems Engineer, for an AirHawk Concept of Operations.

Drafted a preliminary “*Operations Concept Document (OCD) for the Air HAWK*” system for HMSC, provided a
systems approach to integrate the subsystems with the missile, for the Command and Control Division, using
the MIL-STD-498 DID as a guide.

AirHawk provided an air-launch system capability for the U.K. Tomahawk cruise missile.

1995 (five months) - Lead Systems Requirements Engineer, Warfighters' Simulation 2000 (WARSIM
2000), US Army training system.

Performed system functional requirements analysis for command and control levels from battalion through
echelons above corps and Theater-levels

Responsible Engineer for the analysis and writing of the system specification for the entire system in
accordance with MIL-STD-498 (System Engineering). (Hughes won Phase I)

WARSIM 2000 C4I training system will stimulate all present and emerging Force XXI digital C4I systems with
operational data for entire staffs in their Tactical Operations Centers in the field, in classrooms and at the

War Colleges. WARSIM 2000 integrates with other joint systems through protocol standardization and object-oriented design features.

1994 (two months) – System Requirements Compliance Engineer, Theater Battle Management Core System (TBMCS), US Air Force C4I system.

Ensured compliance with the contract and requirements documents integrating different systems into the TBMCS proposal, including the Global Command and Control System.

Drafted a compliance matrix with 200 pages in the Executive Volume to meet demanding RFP compliance requirements (Proposal vs. IFPP vs. SOW vs. CDRL vs. WBS vs CLIN vs TRD).

TBMCS is the US Air Force theater to squadron level C4I system. (Hughes lost)

1994 (seven months) – Proposal Technical Volume Manager for the Vessel Tracking Services 2000 (VTS 2000), US Coast Guard C3 system.

Led the technical and engineering proposal efforts to comply with the RFP and proposal requirements, based on Hughes themes and proposal strategy decisions.

Managed systems, hardware, communications, software, and logistics engineers writing the responsive proposal. (Ten corporate teams bid; Hughes won Phase I with two others including Raytheon, Hughes performed Phase I, Congress delayed Phase II, and program was later restructured)

VTS interfaces radar, visual surveillance, environmental, and voice communications data with differential Global Positioning System (dGPS) information from automated and human input to enhance safety and commerce on waterways and for major port regions.

1993-1994 (ten months) – Lead Systems Engineer, Fire Support Combined Arms Tactical Trainer (FSCATT), US Army training system.

Team Leader for the requirements analysis, design, system engineering and proposal efforts.

Drafted and led several pre-RFP System Requirements Reviews for the System Specification.

Developed a technique with Distributed Interactive Simulation (DIS) protocols whereby a thousand or more cannons can perform exercises from multiple sites in same exercise.

FSCATT integrates artillery and fire control with a Forward Observer visual training system, provides Fire Direction Center simulation and stimulation interfaces with Close Combat Team Trainer (CCTT) M1 tank and M2 systems. (Hughes won \$118M program)

1990-1991 (20 months) – Systems Requirements Engineer, Tactical Combat Training System (TCTS), US Navy C4I training system.

Led the simulation and modeling, system requirements analysis for all real-time operations for the proposal and Phase I development efforts. (Hughes won Phase I)

Wrote most of the *Exercise Execution CSCI SRS* for real-time system execution software for all simulations and sensor, weapons and platform models (over 100).

TCTS provides a task group training data link for 100 aircraft, 24 ships and submarines, 6 ashore installations and ranges, with real-time targets (to 780). TCTS uses participant "pods" with a data link between platforms; stimulates platform sensors with the real-time targets; maintains data link communications; collects data for feedback and rapid after action reviews. (Hughes team won Phase I, Raytheon Phase II)

1991 (1 month) - Human Factors SE for Land Warrior 2000 proposal, US Army infantryman C4I system.

Human Factor Engineer for proposal effort for the helmet display overload analysis with computer text and graphic display resolution. Left to lead FSCATT Systems Engineering and Proposal teams.

Land Warrior 2000 system provides infantrymen with an integrated C4I System for an infantry brigade, with computer-driven displays, messages, GPS, and other C2 features. (Hughes won)

1988-1991 (4 years) – Assistant Program Manager for the Training Effectiveness Subsystem, Device 20A66.

Created Performance Measurement Subsystem, used subcontractor to provide analysis, documentation, and design details.

Managed subcontract (\$1.2M), conducted subcontractor reviews, wrote SOWs, evaluated products and subcontractor.

The Performance Measurement Subsystem determines operational performance (real time) for trainees from Admiral to sensor operators and for ship teams, multi-ship and tactical units.

1 **1988-1991 (4 years) – Senior Systems Engineer, Device 20A66.**

2 Lead Systems Engineer, provided significant inputs for models, simulations, communication data link interfaces,
3 user displays, and I/O; consultant to software team as ASW expert.

4 Designed to real-time Links 4A/11/16 with ships in port and ships/aircraft at sea.

5 The Device 20A66 trains a Battle Group Commander in a Task Force Command Center (TFCC), staff and
6 subordinate staffs (in 20 ships and submarines and 15 aircraft in 35 mockups using 186 different
7 workstations with 61 large screen displays) to use data links, communications, and good decision making
8 practices.

9 **1986-1988 (1.5 years) – Proposal Technical Volume Manager, Device 20A66.**

10 Evaluated Draft-RFP and System Specification, provided 229 change pages, was acknowledged to be most
11 significant pre-proposal action by any bidding contractor.

12 Led pre-proposal, technical design and development effort as the only engineer for 1 year.

13 Led, as Technical Volume Manager, team of systems, simulation, hardware, courseware, facility, logistics and
14 software engineers in the synthesis and drafting of the 500-page technical volume, with final technical
15 volume cost less than B&P estimate.

16 After proposal submittal, replied to questions, gave briefs. (Hughes won, beat 2 incumbents)

17 **1987-1988 (6 months) – Proposal Manager, Law Enforcement Driver Trainer System for California.**

18 Led pre-proposal and proposal team to develop a design for high-technology driver trainer systems for the Peace
19 Officers and Safety Training (POST) Commission. (Hughes won)

20 Participated during contract, as systems engineer in-charge of design, to verify that the POST training
21 objective(s), standard(s) and criteria would be met for the drivers of the system.

22 **1987 (4 months) – Lead Engineer, Advanced Fuels Auxiliaries Test System (AFATS) for US Air Force**

23 Provided initial engineering requirements analysis leading to joint venture with Allison Gas Turbines to bid this
24 major USAF test system.

25 Drafted initial System/Subsystem Design Document (SSDD) as the basis for design.

26 Hughes bid, after I left project; however, USAF declined to award contract.

27 **1986-1987 (3 months) – Proposal Coordinator, USAF LANTIRN training system.**

28 Led proposal compliance review for real-time video and infrared technical requirements using the Hughes
29 RealScene™ 3-dimensional (voxel-based), interactive system instead of the Hughes (formerly Honeywell)-
30 developed, GBU-15 training system.

31 LANTIRN trainer provides real-time displays of video and IR images to cockpit and weapons systems for F-15,
32 F-16 flight simulators and the AGM-130 missile. (Hughes no-bid)

33 **1985-1986 (9 months) – Senior System Engineer for the Electronic Warfare Coordination Module (EWCM)
34 program with responsibility for the environmental effects design.**

35 Led technical proposal effort, coordinated proposal outline, reviewed storyboards and topics, determined
compliance, edited technical volume, and synchronized with other volumes.

Responsible engineer for atmospheric and acoustic effects on propagation and degradation from
countermeasures, provided customer briefs and proposal topics.

EWCM provides full spectrum management capabilities for the Electronic Warfare Commander to coordinate
operational and intelligence EW information and databases. (Hughes won Phase I, lost Phase II)

**1982-1985 (2.5 years) – Systems Engineer for the training subsystem, Device 14A12 ASW Tactical Ship
Training System.**

Led technical proposal effort for the Performance Measurement and Monitoring training subsystem, sonar
modeling and simulation, operator displays, fire control, data links, and sensor, weapon and platform
modeling.

Designed PMM subsystem, pushing the state of the art, later implemented in Device 20A66.

All ASW ships and ASW aircraft were simulated in a single-ship, multi-dimensional (anti-air, anti-surface, anti-
submarine) environment, as a C2 and sensor operator training system.

PAPERS

Presented two papers to the Industry/Inter-Service Training Systems Conferences (I/ITSC):

"Design Concepts for a Performance Measurement System" [nominated for best paper, in top 5 of 105]

1 "A Performance Measurement System Design", based on Device 20A66 results.
2 Prepared and presented three reports to the National Security Industrial Association (NSIA), ASW Committee, as
3 Vice-Chairman of Training and Interoperability Subcommittee; Study Leader for following Reports:
4 "Training Commonality for Oceanography and Acoustic Environment Study Results"
5 "Training Commonality for Detection and Classification Study Results"
6 "Proposed Standard Sonar Equation for Technical, Tactical, and Training Communities"
7 Received NSIA Meritorious Award for leading these ASW industry and government studies)
8 Presented paper to the Hughes Advanced Technology and Studies Group describing the use of "Distributed
9 Interactive Simulation (DIS) Protocols in C4I Systems".

7 **RAYTHEON AND HUGHES COURSES**

8 **Taught** "Introduction to ASW Tactics" course, at Hughes (four times) and for the *Advanced Training Institute* at
9 Naval Underwater Systems Center (New London and Newport RI) 10 times at the Naval Surface Weapons
10 Center (White Oak), Naval Civil Engineering R&D Center (Oxnard), and other locations.

11 **Attended** "C4I Architecture Implementation" (4 days, AFCEA Course 503), "Risk Management" (3 days), "Front-
12 End of the Business" (1 week), "Systems Engineering" (HITS/HMSC processes), "Global Command and
13 Control Seminars" (APL)

11 **Attended Advanced Technical Education Program (ATRP) Courses:**

12 Software Risk Analysis, Software Estimating and Prediction, Database Modeling, Object-Oriented
13 Software Methodologies, Proposal Development, How to Interview Candidates, Microsoft Word, Creating a
14 Web Browser, Netscape User's Courses

15 **Participated** in the NSIA Industry War Games at Naval War College (Newport RI) and Marine Corps Command
16 and Development Center (Quantico).

15 **MILITARY SCHOOLS**

16 Attended US Naval schools including Destroyer School Department Head Course, Gunnery Officer, Anti-
17 submarine Warfare (ASW) Officer, Communications Security (COMSEC), Naval War College Wargaming
18 Course, and Naval Tactical Data Systems User Courses.

19 Qualified for Command of Destroyer, Tactical Action Officer (Battle Group and Ship), Officer of the Deck (cruiser
20 and destroyer), Ship Command Duty Officer, Surface Warfare Officer.

20 **SIGNIFICANT MILITARY AND OPERATIONAL C4I EXPERIENCE**

21 Active duty commissioned officer in the US Navy serving in the following assignments (home ported twice with
22 each of the four fleets):

23 Area ASW Force, Sixth Fleet (CTF 66) as Staff Plans Officer coordinated all surface ships, aircraft carriers,
24 submarines and ASW/EW aircraft in the Sixth Fleet area on a daily basis; conducted operational ASW with
25 real targets; coordinated (simulated) daily submarine, surface ship and air-launched anti-ship Harpoon
26 attacks on targets. (Awarded Meritorious Service Medal for highest Fleet-level ASW performance ever)

27 Fleet ASW Training Center, Pacific Fleet, the lead Coordinated ASW Tactics Instructor and Staff
28 Oceanographer, and at sea as an Anti-Submarine Warfare Commander (ASWC) Instructor or ASWC Watch
29 Officer during Fleet Exercises, augmenting Destroyer Squadron staffs. Also taught coordinated ASW tactics
30 at Fleet Combat Training Center (Point Loma) as a guest instructor to TAO classes for three years.

31 Commander Carrier Group Three, as staff ASW Surface Operations and Geophysics/ Environment Officer,
32 deployed twice to Western Pacific and Indian Ocean; planned and conducted RIMPAC 77 with Japan,
33 Australia, New Zealand, and Canadian ships, 3 aircraft carriers, 7 submarines and over 150 aircraft; planned
34 Persian Gulf CENTO MIDLINK-77 with UK, Iran and Pakistan; qualified as Battle Force TAO on 5 different
35 aircraft carriers.

36 Naval Surface Warfare Officers Schools Command/Naval Destroyer School as the ASW Tactics and TAO
37 Instructor for Prospective COs, XO's, Department Heads and Free World Navies Courses for mid-grade
38 officers from over 30 countries; co-developed Naval Tactical Analysis Wargame (NAVTAG) and used it to
39 evaluate tactical concepts including Harpoon anti-ship tactical development; used ASW team and sonar
40 trainers for exercises; trainers for anti-PT boat interactive team exercises; taught anti-submarine/anti-surface
41 warfare tactics, EW, communications, and EMCON decision making classes. Taught surface ship ASW at
42 Submarine School, was a guest instructor at the Naval War College and used the War College wargaming
43 facilities to evaluate new systems and ship classes being designed by NAVSEA. (Awarded Navy
44 Commendation Medal with Gold Star)

45 Commander Cruiser-Destroyer Flotilla Ten, as ASW Plans Officer, deployed to Sixth Fleet, embarked on 3
46 aircraft carriers and 2 cruisers including USS *Albany*. Planned and executed many Sixth Fleet and NATO

1 exercises and a CENTO air defense exercise. Engaged in more than 50 Soviet bomber over-flights of the
2 Battle Group, 100% successfully intercepted by fighters and missile lock –on prior to 100 miles from the
3 aircraft carrier. (Awarded Meritorious Unit Commendation for validating new anti-SSBN tactics and
developing SSN direct support procedures)

4 USS *Hollister* (DD788), Operations Officer, deployed for 2 years, 19 months of consecutive combat operations
off Vietnam in the Seventh Fleet, provided naval gunfire support (over 28,000 rounds), maritime surveillance,
5 SAR, Gemini VIII NASA space craft rescue ship, and EW intelligence gathering and Korean operations.
(Awarded Secretary of Navy Unit Commendation, Navy Commendation Medal with Combat "V")

6 USS *Robert L. Wilson* (DD748), ASW Officer, deployed to Sixth Fleet for ASW operations, UN rescue ship off
Cyprus, NATO exercises, Gemini IV NASA space craft rescue ship, participated in the Dominican Republic
7 operations. (Armed Forces Expedition Service Medal)

8 USS *Springfield* (CLG7), Main Battery Fire Control Officer and Missile Fire Control Officer, deployed in Sixth
Fleet for over a year home ported in Villefranche sur Mer, France.

9 AWARDS

10 Arizona Golden Rule Citizen Award, by Arizona Secretary of State Janice K. Brewer for exemplifying the spirit of
11 the Golden Rule daily: "treat others the way you would like to be treated", nomination made by Santa Cruz
County Supervisor Ron Morris, dated 2 August 2004 for accomplishments on the Santa Cruz County/City
12 of Nogales Joint Energy Commission.

13 Merit Award, Raytheon and Hughes, four times, for achievement and excellence in performance.

14 National Security Industrial Association (NSIA) Anti-Submarine Warfare Committee, Meritorious Award from the
NSIA President, Admiral Hogg USN (Ret.), for leading several ASW training industry and government
15 studies. (1992)

16 Military Awards include Meritorious Service Medal, Naval Commendation Medal with Combat "V" and Gold Star,
Navy Unit Commendation, Navy Meritorious Unit Commendation, National Defense Medal, Armed Forces
17 Expeditionary Medal (Dominican Republic), Vietnam Service Medal with three Bronze Stars, Vietnam
Campaign Medal with "1960-", Overseas Service Ribbon (Italy).

18 SECURITY CLEARANCE

19 Secret (have held higher), last updated 1998 is being maintained by ISIS, Inc.
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1 Appendix B – Exhibits

2
3 Exhibit MM-1

4 **Comments on the Proposed Rate Increase**
5 **for Arizona-American Water Company, Tubac on 18 November 2003.**
6

7 **Marshall Magruder**
8 **PO Box 1267**
9 **Tubac, AZ 85646**

10 **18 November 2003**

11
12 **BEFORE THE ARIZONA CORPORATION COMMISSION**

13 For the Open Meeting held this date in Tubac Arizona

14 **Comments on the Proposed Rate Increase for Arizona-American Water Company, Tubac**

15 **FIRST ISSUE – UTILITY RATE INCREASES, WHY?**

16
17 American businesses are **leaders in developing efficient work processes** to lower costs and
18 dominate that business environment.

19 Of all the industries, the utility industry has proven to be amongst the **least efficient**. With less than
20 one third of the energy used by the \$1 trillion dollar electric industry delivered to customers, we need
21 to “open our eyes” to just plain effective business management.

22 This water case, with a “cross the board” rate increase is another accounting trick, which failed to
23 look at the real “cost of doing business” issues. Let’s explain this.

24 A **zero-based budget approach** is essential to determine the “cost” of each step in the business
25 process model. Cost components change with time, they are not all “flat.” Without examining each
26 cost element, by each company, then did the American-Arizona Water Company fail to properly
assess the detailed impacts of doing business?

27 More importantly, this approach defeats efficient management and should not be tolerated by the
28 Commission. Make AAWC show you their numbers, by each cost element category. Then make
29 AAWC **prove to you the actual, measured, and documented cost of that cost element**
30 **category**. “Shot-gun” approaches are used by lazy and ineffective management teams.

31 Public service companies have all their books open during ratemaking cases. They need to be
32 audited to the level necessary to **verify and validate** that their charges are (1) **prudent**, (2) **fair**, and
(3) **reasonable**. A fair and reasonable return should be awarded for efficient companies.

33 Most utilities have never heard of **ISO 9000**, the integrated management and business process
34 program for quality organizations. It’s applicable to every company in this country, including the
35 water utility business. The implementation of the 20 different business processes in this world-wide
(a la “Deming”) program, will improve corporate efficiency at all levels by all departments. ISO 9000

1 goes for **"self-improvement" mechanisms**, embedded into the day-to-day operations, to foster
2 overall corporate improvement. It is obvious by just the "cross the board" approach in this case, that
3 ISO 9000 has not been implemented at Arizona-American Water Company.

4 Based on this, then **ISO 14400**, for **Environmental Management** practices, surely has not been
5 considered. Such practices, when implemented by a water company, involve all environmental
6 management decisions inside this company and their external impacts. This company needs to
7 consider establishing ISO 14400, in addition to ISO 9000.

8 If so, the next rate case will be different. Why should a properly managed company request any rate
9 increases, when efficiency results in rate "decreases". **When did this last happen in Arizona?**

10 I have worked in companies where these have been implemented, including a Malcolm Baldrige
11 National Quality award organization. The differences are instantly amazing. You find a totally
12 different atmosphere towards working as a team. **What's going on now is mismanagement.**

13 Please work these details and have the **"best and brightest"** companies **propose rate reductions**
14 the next time around, as my second issue, discusses the impacts of this problem.

15 **SECOND ISSUE – IMPACTS OF THIS UTILITY RATE INCREASE**

16 We have had a series of recent utility increases in Santa Cruz County. These include the following:

17	Natural Gas rate increase	20.9%
18	Electricity rate increase	22.0%
19	MEDICARE	13.9%
20	Trash charge per car load	100%
21	Proposed Water rate increase	86% to possibly 35%

22 Lets look at what a **fixed income person, retired on social security** received to compensate:

23	Social Security COLA	2.1%
----	-----------------------------	-------------

24 Again, with a fixed income, **something is not going to be on the dinner table for these folks!**

25 **"ENOUGH IS ENOUGH"**

26 Please fix these problems, **don't just pass on increase after increase without making them**
27 **work**, if they have poor business practices and mismanagement.

28
29 Sincerely,

30
31 Marshall Magruder
32 (520)398-8587
33 marshall@magruder.org
34
35

Exhibit MM-2

**Rate Comparisons at Various Volume Levels: America-Arizona Water
versus Aliso Springs Property Owners Association**

An adjacent smaller private water company with about 30 customers has a rate structure that emphasizes conservation as follows:

Monthly Usage	Rate
First 4,000 gallons	\$4.00 per 1,000 gallons
4,001 to 15,000 gallons	\$10.00 per 1,000 gallons
Above 15,001 gallons	\$20.00 per 1000 gallons
Monthly Service Charge	\$20.00 per customer

Table 1 below compares the Volume Charges for the Present and Proposed Tubac Water District AAWC and the Aliso Springs Property Owners Association (ASPOA) rates.

Table 1 – Rate Comparison of Monthly ¾-inch Residential Rates at Various Volume Levels for AAWC-Tubac Water District and ASPOA, Basic Service Charge and Arsenic Cost Recovery Surcharges (ACRS)

Monthly Water Usage	AAWC-Tubac Water District		ASPOA
	Present	Proposed	
5,000 gallons	\$10.41	\$19.97	\$20.00
10,000 gallons	\$24.66	\$44.22	\$64.00
15,000 gallons	\$38.91	\$68.47	\$114.00
20,000 gallons	\$53.16	\$92.72	\$214.00
Service Charge			
Basic Service	\$19.68	\$32.50	\$20.00
Arsenic Cost Recovery Surcharge (ACRS)			
Basic ACRS Charge	\$0.00	\$25.98/month	\$0.00
Volumetric ACRS Charge	\$0.00	\$3.14/1000 gallons	\$0.00

Table 2 below shows total monthly bills for water usage including Basic Charge, Volumetric usage and both ACRS charges (basic and Volumetric).

Table 2 – Total Monthly Bill Comparisons between ¾-inch Residential Rates for AAWC Water District and ASPOA

Monthly Water Usage	AAWC-Tubac Water District		ASPOA
	Present	Proposed	
5,000 gallons	\$30.09	\$94.15	\$40.00
10,000 gallons	\$44.34	\$134.10	\$104.00
15,000 gallons	\$58.59	\$174.05	\$134.00
20,000 gallons	\$72.84	\$214.00	\$234.00

Exhibit MM-3

The 2005 Santa Cruz County Comprehensive Plan - Water Resources Element

Below are pages 62 to 65 from the *2005 Santa Cruz County Comprehensive Plan*.

Water Resources Element

Introduction

Sufficient water supplies, along with effective and efficient water management and conservation programs, are crucial for all communities. To assist in long-term water planning, A.R.S. §11-821(C) allows for an optional Water Resources element to be included in the County Comprehensive Plan. This element is not required for counties under 125,000 in population but was included in this Plan due to the critical importance of water in relation to growth potential in Santa Cruz County. The Water Resource element summarizes currently available water supplies; current and future water demands and the general impacts of future growth on water availability. This element does not include new independent hydrogeologic studies. It does include recommendations for water management and conservation.

Past, Present and Future Trends

The existing condition of water resources (e.g., rivers, streams, wetlands, etc.) provides base line data used to determine if future population growth will exceed water availability for the unincorporated County area and what regulations apply to manage that growth. The Arizona Department of Water Resources (ADWR) under two major programs regulates water resources in Santa Cruz County. The first and most complete authority, the Assured Water Supply Program was granted to ADWR in 1994 by creation of the Santa Cruz County Active Management Area (SCAMA). Maintaining a safe-yield condition and preventing long-term declines in local water tables are the management goals of the SCAMA (A.R.S. §45-562(C)). The geographic area of the SCAMA is about 716 square miles in the Upper Santa Cruz Valley River Basin. It is concentrated around a 45-mile long reach of the Santa Cruz River extending from the Mexican border to a few miles north of the Santa Cruz County/Pima County border (see Figure 6 in Appendix V). Detailed information regarding water resource conditions, water use characteristics, regulatory programs, future conditions and recommendations regarding future water management strategies are contained in "The Third Management Plan for the Santa Cruz Active Management Area" adopted on December 13, 1999. Any future residential subdivision development within this region must occur under the SCAMA regulations and, therefore, it is an important planning issue.

For the remainder of the County outside of the SCAMA, ADWR authority is primarily focused through the Water Adequacy Program, described in A.R.S. §45-108. This program requires developers to obtain a determination from the state regarding the availability of water supplies prior to marketing lots. For new subdivisions outside of the SCAMA, a determination of water adequacy by ADWR is required before the County can approve a plat. This can often be a determination that there is not adequate water for the development, but such a ruling does not preclude lot sales.

Groundwater

Water consumption, both domestic and commercial, within Santa Cruz County consists solely of groundwater extraction. The Santa Cruz River basin is the largest groundwater recharge facility for areas west of Patagonia Lake and feeds such populated areas as Nogales, Rio Rico, and Tubac. The O'Donnell Canyon and Sonoita and Turkey Creek basins are used by the populated regions of Sonoita and Elgin. The Patagonia region is served solely by the Sonoita Creek basin.

The Santa Cruz River basin has an average annual groundwater production range of 51,500 to 55,300 acre-feet. This range was concluded by a study performed in 1997 by ADWR. The largest demand for

groundwater in this region is riparian with an estimated annual consumption of 25,800 acre-feet. Other additional demands consist of municipal, agricultural and industrial. This region is regulated through the SCAMA management plan, as administered by ADWR, which requires the development of legislative and policy guidelines and educational programs relating to water resource use and conservation.

Municipal water demand within the Santa Cruz River basin, is provided mainly by four large providers: City of Nogales, Rio Rico Utilities, Valle Verde Water Company and Arizona American Water Company (formerly Citizens Utilities). Total water demand by these providers is approximately 7,043 acre-feet based on 1997 data. Smaller providers account for an additional demand of 400 acre-feet.

Industrial water demand is met by individual user wells and permitted annual volumetric allotments based on industrial classification and use. The Santa Cruz AMA requires additional conservation practices above general conservation requirements. These additionally regulated uses are:

- Turf-related Facilities (≥ 10 acres)
- Sand and Gravel Facilities (> 100 acre-feet per year)
- New Large Landscape Users (10,000 square feet)
- New Large Industrial Users (> 100 acre-feet per year)

Industrial water demand fluctuates depending mostly on weather conditions. During 1997 industrial water demand was estimated at approximately 1,300 acre-feet.

Riparian uses currently make up the largest sector of demand. This demand consists of water consumed by dense vegetative tracts along the Santa Cruz River's effluent-dominated perennial reaches. Such tracts have increased in size overall from 6,200 acres in 1954 to 8,600 acres in 1995 based on preliminary estimates.

Agricultural demand within the SCAMA consists largely of irrigated croplands provided through Certificates of Irrigation Grandfathered Rights (IGRs) issued to farmers in the early 1980's. The estimated demand during 1997 for IGR was approximately 12,500 acre-feet, the second largest water demand sector after riparian use.

The Sonoita and Elgin area domestic water is supplied largely by shared-use and individual user wells. The Patagonia area industrial and most municipal water demand is provided by the Town of Patagonia. Estimates of agricultural and riparian water demand cannot be established for these regions due to insufficient data, however agricultural demands are provided solely by individual user wells.

Reclaimed Water

Currently, no direct reuse of wastewater treatment plant effluent has occurred to any significant degree.

Effluent from the Nogales International Wastewater Treatment Plant (NIWWTP), which serves the City, a portion of the most densely populated areas of Rio Rico, Peña Blanca Highlands and part of Kino Springs (Estancia Yerba Buena), is a major source of supply contributing to the maintenance of water levels downstream of the plant.

A community wastewater treatment facility is located in Patagonia. The Tubac Golf Resort (TGR) and Barrio de Tubac developments both have centralized wastewater systems and utilize wetlands for treatment. TGR reuses some of its effluent to irrigate the golf course. All other unincorporated regions are served via onsite systems (e.g., septic systems).

Other Water Supplies

Other known water supplies included allocations of the Central Arizona Project (CAP) water to Rio Rico and the City of Nogales. However, the cost of delivery facilities was prohibitive. Those allocations were transferred to the City of Scottsdale and are no longer available.

1 The City of Nogales may use up to 4,200 acre-feet of surface water from Patagonia Lake, although only
2 for emergency use. Again, due to the anticipated cost to delivery this water, the city does not use this
3 source.

4 Peña Blanca Lake is not a viable source given recent contamination issues and the fact that the United
5 States Forest Service and the Arizona Game and Fish Department own surface water rights.

6 Currently, within the SCAMA it is estimated by ADWR that municipal, agricultural and industrial demand
7 for water is about 18,800 acre-feet annually. Using a population estimate of 30,000 living within the
8 SCAMA yields a consumption rate of approximately 0.63 acre-feet per year per person. Current inflow
9 to the SCAMA is estimated by ADWR to be between 39,600 and 142,900 acre-feet per year. Utilizing a
10 conservative inflow rate of 45,000 acre- feet per year and a consumption rate of 0.63 acre-feet per year
11 results in a population estimate of approximately 71,000 persons in the SCAMA before safe-yield is
12 jeopardized.

13 There is less data available for review outside of the SCAMA. In "A Comprehensive Plan for Northeast
14 Santa Cruz County" (CPNSCC) (2002, Sonoita Crossroads Community Forum), a summary of certain
15 available hydrogeologic reports was accomplished to evaluate water supply. The summary concluded
16 that a multi-agency groundwater study should be completed in order to more accurately determine
17 future availability of water supply. Based on review of the CPNSCC and other limited information it is
18 believed that sufficient water supply exists for near-term needs outside of the SCAMA. Adoption of the
19 land use recommendations contained within this Comprehensive Plan and implementation of water
20 resources policies in conjunction with conducting a detailed water resources evaluation for the area
21 outside of the SCAMA will ensure adequate water supply for the Comprehensive Plan 10-year window.

22 **WATER RESOURCES ELEMENT GOALS, OBJECTIVES AND POLICIES**

23 **GOAL 17: OUR AIR AND WATER ARE CLEAN AND MEET OR EXCEED ALL NATIONAL 24 STANDARDS.**

25 *With the advent of the Clean Water Act, Clean Air Act and Safe Drinking Water Act years ago, state
26 and federal agencies were given the tools to begin to clean up our air and water. However, our location
27 adjacent to areas outside County jurisdiction makes achieving national air and water quality standards
28 difficult. Appropriate land use decisions and sound development standards are important to ensure that
29 the PM₁₀ and aquifer and surface water quality standards exceedances that exist are not aggravated.
30 Close cooperation with state, federal and international agencies will also move the County toward
31 meeting this goal.*

32 *Objective 17.1 Prevent the expansion of the Nogales Non-attainment Area (NNA).*

33 *Policy 17.1.1 The County will develop ordinances requiring the use of appropriate dust control methods
34 for clearing land for new development, roads, and other projects.*

35 *Policy 17.1.2 The County will develop a mitigation plan that addresses dust pollution.*

36 **Objective 17.2 Encourage proper treatment and disposal of wastewater.**

37 *Policy 17.2.1 The County will restrict conventional septic systems in accordance with state law and
38 regulation.*

39 *Policy 17.2.2 The County will provide information to communities on methods to fund sewer systems
40 (sanitary and improvement districts, Water Infrastructure Finance Authority, USDA Rural Development
41 Agency, etc.)*

42 **Objective 17.3 Reduce stormwater runoff pollution.**

43 *Policy 17.3.1 The County will ensure that new developments comply with the Arizona Pollutant
44 Discharge Elimination System permitting requirements.*

1
2 **GOAL 19: WATER SUPPLIES ARE PROTECTED AND CONSERVED.**

3 *Water availability is key to our future. Because the County is susceptible to droughts, conservation and*
4 *management of water are of major importance. In its review of new development as it applies land use*
5 *regulations under its jurisdiction, the County can complement existing state and federal water*
6 *management regulations administered by the Arizona Department of Water Resources (ADWR) and*
7 *other authorities, both inside the Santa Cruz Active Management Area (SCAMA) and outside of the*
8 *SCAMA. Within the SCAMA, the Santa Cruz River constitutes a renewable and variable source in*
9 *addition to other water supplies. Outside the SCAMA, this source is unavailable and certain parts of the*
10 *County are believed to be more vulnerable to drought and other challenges for reconciling water supply*
11 *with increased demand.*

12 **Objective 19.1 Review and encourage that conservation measures, reuse alternatives and**
13 **drought management practices be planned and implemented for all new land developments.**

14 *Policy 19.1.1 The County will adopt the Wellhead Protection Program.*

15 *Policy 19.1.2 The County will encourage and facilitate gray water reuse.*

16 *Policy 19.1.3 The County in coordination with ADWR will assess the water demand that will result from*
17 *proposed new development added to the existing uses and how this will be served by identified water*
18 *supplies.*

19 **Objective 19.2 Encourage planned residential subdivision development to reduce wildcat**
20 **subdivisions that involve lot splitting and proliferation of exempt wells.**

21 *Policy 19.2.1 The County will consider alternatives to denial of a rezoning application, when adverse*
22 *water consequences may result.*

23 *Policy 19.2.2 The County will work in association with other counties to develop legislation designed to*
24 *inhibit the growth of wildcat subdivisions by providing reasonable and attainable alternatives for land*
25 *development.*

26 **Objective 19.3 Outside the SCAMA, develop watershed management plans that are consistent**
27 **with existing state law.**

28 *Policy 19.3.1 The County will encourage the formation of Rural Watershed Associations that would*
29 *work with ADWR to implement programs of water conservation and voluntary management of water*
30 *resources.*

31 **Objective 19.4 Outside the SCAMA, ensure that residential developers are in compliance with**
32 **ADWR's Water Adequacy Program.**

33 *Policy 19.4.1 The County will require evidence of compliance with the Water Adequacy Program prior*
34 *to final plat approval.*

35 **Objective 19.5 In concert with ADWR, scrutinize commercial and industrial development in view**
of available water resources to be supplied by an Industrial Use Permit, and encourage
conservation, reuse and recharge of such water resources.

Policy 19.5.1 The County will require applicants for new commercial and industrial land uses that are
to be supplied through an Industrial Use Permit to demonstrate, as a condition of approval, that ADWR
has approved the requested water use as consistent with the management goals of the SCAMA.

Exhibit MM-4

AAWC Response to Magruder Data Request 1-5

COMPANY: ARIZONA-AMERICAN WATER COMPANY
DOCKET: W-01303A-08-0227 and SW-01303A-08-0227

Response provided by: Joseph Gross
Title: Director of Engineering

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: MM 1-5

Q: Mr. Broderick's revised Testimony of 20 July 2008, on page 25 stated that "a developer will contribute approximately \$1 million toward the facility".

- a. Has an agreement been signed with this developer? If an agreement has not been finalized, then what is the present status of this agreement and will it be finalized prior to the hearing in this case?
- b. Why is "approximately" used instead of an exact value?
- c. Please provide a copy of this agreement.

A: a. No, an agreement has not been signed with the developer. Arizona-American and the developer continue to work together to plan, design, and build common water facilities with the purpose of satisfying Arizona-American's arsenic treatment requirements and the developer's fire flow pumping and water storage requirements for the development. Currently, the developer is nearing completion of a water master plan and cost analysis to evaluate their various alternatives to provide the required pumping and water storage. Once an alternative is chosen, an agreement will be pursued between parties.

b. "Approximately" is used because at this time the pumping and water storage facilities required to be built by the developer are only estimated in their size, scope, and construction cost.

c. No agreement exists at this time, and one may not be finalized by the time of the hearing.

1 **Exhibit MM-5**

2 **AAWC Response to Magruder Data Request 1-13**

3
4
5 **COMPANY:** ARIZONA-AMERICAN WATER COMPANY
6 **DOCKET:** W-01303A-08-0227 and SW-01303A-08-0227

7
8 **Response provided by:** Thomas M. Broderick
9 **Title:** Director, Rates and Regulation

10 **Address:** 19820 N. 7th Street, Suite 201
11 Phoenix, AZ 85024

12 **Company Response Number:** MM 1-13

13 **Q:** Mr. Broderick's Exhibit TMB-3, on page 1, shows a rate case expense of \$10,000
14 titled "Witness Training".

- 15
16 a. Please provide the name of the organization that will train these witnesses?
17 b. What are the training goals for this training?
18 c. Which witnesses are planned or have already participated in this training?
19 d. When will this training occur and where?
20 e. How does AAWC justify ratepayers funding "witness training" expenses?

- 21
22 **A:** a. The organization has not yet been selected.
23 b. To enable a Company employee to understand the basics of testifying before
24 the ACC.
25 c. No training to-date has occurred. The pool of trainees would be from
26 Company employees that have submitted either direct, rebuttal or rejoinder
27 testimony.
28 d. No date has been scheduled. The training would most likely occur in Phoenix
29 just prior to the hearing.
30 e. Since witnesses are trained to answer questions accurately, truthfully, and
31 concisely, this is of benefit to ratepayers who ultimately pay the costs for
32 Company attorney(s), transcripts, briefs and, perhaps, their own attorney(s) if
33 they are part of an intervention.
34
35

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Kristin K. Mayes
Gary Pierce
Sandra D. Kennedy
Paul Newman
Bob Stump



IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT

Docket No. W-01303A-08-0227

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT

Docket No. SW-01303A-08-0227

Notice of Filing the
Direct Testimony (Cost of Service and Rate Design)
by
Marshall Magruder

This filing has been mailed to known and interested parties in the Service List.

Respectfully submitted on this 23rd day of January 2009

MARSHALL MAGRUDER

By Marshall Magruder

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Direct Testimony (Cost of Service and Rate Design) by Marshall Magruder
Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227

Marshall Magruder

page 1 of 20

23 January 2009

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4 **DIRECT TESTIMONY**
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6 **(Cost of Service and**
7 **Rate Design)**
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9 **by**
10

11 **MARSHALL MAGRUDER**
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18 **23 January 2009**
19

20 **In**
21

22 **IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN**
23 **ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS**
24 **UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES**
25 **BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU**
26 **WATER DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN**
27 **CITY WEST WATER DISTRICT, AND TUBAC WATER DISTRICT**

28 **ACC Docket No. W-01303A-08-0227**
29

30 **And**
31

32 **IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN**
33 **ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS**
34 **UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES**
35 **BASED THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT**

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Section 1 – BACKGROUND AND INTRODUCTION

1.1 INTRODUCTION. See Part I, page 5.

1.2 PURPOSE OF TESTIMONY in Part I. See Part I. page 7.

1.3 PURPOSE OF TESTIMONY in Part II.

Q. What is the purpose of this Part II testimony?

A. The purpose is to provide additional testimonial information about each of the four issues and to provide evidence and details for a proposed the Cost of Service and Rate Design for review by all parties. The four Issues in the Part I Testimony are included in Part II. The testimony in Part I is unchanged, unless specifically corrected or modified in this Part II Testimony.

Q. Have you received timely and complete results during the discovery process in the effective Rate Case Procedural Order?

A. In general yes; however, some important data requests have not been satisfactorily answered and we have several issues involving arsenic measurements and remediation facilities that remain. We are trying to work this out without going to the Administrative Law Judge; however, that option may be necessary.

Q. Can you explain this further?

A. Yes. It is important for the small Tubac Water District to remove the arsenic from its drinking water. In February 2008, a prior exception to delay implementation was overturned, thus eliminating the exception to delay implementation. We understand that an arsenic reading exceeded 35 ppb, triggered this action. As shown in Part I, our last two quarterly arsenic readings were 24 and 25 ppb. Through a data request by this party, additional measurements, standards, and other factors leading to up determination since 1970 were requested, along with background information concerning an arsenic treatment facility (ATF) in Tubac with service charges and volumetric rates, higher than any other AAWC ATF. Furthermore, background information about the much less expensive Point of Use (POU) arsenic removal process also has not been provided. Due to the significant ratepayer cost differential between the POU and ATF proposed by AAWC in 2005, detailed objective trade-study rationale for non-selection of the POU process have not been received.

The company has offered to provide the arsenic readings and other background information on 20 February 2009, significantly exceeding the data request response requirements in this Rate

1 Case Procedural Order. Again, we are in discussion on this and upon receipt and analysis,
2 this party may file supplemental testimony or in the Surrebuttal will be necessary.
3

4 **Section 2 – ISSUES IN THIS TESTIMONY – see Part I, pages 8-14.**
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PART II

Section 3 – Cost of Service and Rate Structure Testimony

3.0 ORGANIZATION OF THIS TESTIMONY

Q. How is the testimony organized?

A. Section 3 contains the second pre-filed testimony and includes the proposed rate structure, cost of service, and miscellaneous charges and fees and is Part II of the Direct Testimony for Marshall Magruder. The issues raised in Part I continue in this testimony. The Table of Contents is inclusive for both parts, as indicated prior to page numbers. Only Part II is contained herein. Part III will be the Surrebuttal Testimony of Marshall Magruder.

**3.1 ISSUE NO. 1 – CONSERVATION AS A SIGNIFICANT DRIVER OF
WATER VOLUMETRIC RATES**

Q. Do you still believe conservation is necessary for a fair and reasonable rate structure?

A. Absolutely, yes. In part I, Magruder Exhibit MM-2, another local water utility company rate structure is shown, with rates as high as \$20.00 per 1,000 gallons. There is limited water in our service area; however, as neighbors in the ADWR Santa Cruz Active Management Area (SCAMA). In the SCAMA, all are required to sustain its water resources and well depths, which are being maintained, the only AMA in Arizona. Every new hookup adds another permanent customer and creates more demand. The high residential consumption rates¹ averaging 11,797 gallons monthly per household show that, in the aggregate, AAWC consumers are not implementing water conservation processes. In response to Magruder Data Request 1-25, the Company reported residential and small commercial (5/8 & 3/4-inch) customers averaged 198.99 gallons per day or 76.6% of the water consumed in this water district. This level of consumption is considerably higher than Tucson and others in the Santa Cruz River watershed.

Further, some residential bills exceed 200,000 gallons in one month. From the Test Year results, there are 11 residential bills (5/8 & 3/4-inch) for over 100,000 gallons. There are 119 bills for other high-water users exceeding 50,000 gallons in a month.

¹ In the test year, average monthly water consumption for residential customers (5/8 & 3/4-inch) were:

Agua Fria	7,400 gallons	Havasu	9,705 gallons
Mohave	8,073 gallons	Paradise Valley	20,493 gallons
Sun City West	6,704 gallons	Tubac	10,797 gallons

1 The proposed Magruder rate design has increased the volumetric charges to \$6.00 per 1000
2 gallons, approximately 20% over that proposed by the Company (\$4.95) for all users consuming
3 36,001 gallons or more in a month, for approximately 6.3% of the ratepayers.

4 At the other end of consumption scale, other than many "snowbirds" bills with no
5 consumption in a month, the propose rate is \$1.50 per 1,000 gallons. This is approximately 20%
6 lower than the present rate of \$1.89 per 1,000 gallons, and includes 34% of the test year residential
7 customers.

8 Between these high and low rates, ideally a curve could be used; however a series of tiers
9 are proposed to progressively, increase at \$0.50 per 1,000 gallons, from 4,001 gallons to 36,001
10 gallons. The Test Year results were used to construct Exhibit MM-6 in Appendix B. In particular,
11 Table MM-6-1 compares this Magruder Proposal to the Present and the Company Proposal for the
12 most common residential schedule (F1M1A), comprising over 85% of the Tubac ratepayers, and the
13 corresponding commercial schedule (F2M1A).

14
15 **Q. Do you seem to be adding too many tiers, with ten instead of the three or six (Paradise**
16 **Valley) used in the other water districts?**

17 **A.** As presently structured, the Company's rate structure has only two price-break points, at
18 4,000 and 20,000 gallons per month. From Table MM-6-1 (Exhibit MM-6), we see that 34.3%
19 of the customer's bills during the test year we for 4,000 gallons or less. When we look at
20 consumptions at the Company's second tier break-point of 20,001 gallons, over 83.2% of the
21 customers bills have been included the first two tiers. The Company's third tier only contains
22 16.8% of the remaining customers, and these customers, the highest-water users.

23 The Company's three tier approach fails to provide any PRICE SIGNALS for almost
24 60% of the ratepayers in its second tier. This rate structure defect, by exclusion of price
25 signals to customers, needs correction since the purpose of this approach is water
26 conservation. Price Signals need to be observed, to conserve water, the goal of this process.

27
28 **Q. What is your proposed rate schedule for residential and small commercial?**

29 **A.** The table below provides the Magruder, the Present, and the Company's Proposed Rate
30 Schedules in Table 3-1 below:

Table 3-1. Present and Proposed Tubac Residential Rate Schedules

Commodity Usage	Magruder's Proposed Rates	Company's Present Rates	Company's Proposed Rates
First 4,000 gallons	\$1.50	\$ 1.89	\$ 3.78
4,001 to 8,000 gallons	\$ 2.00	\$ 2.85	\$ 4.85
8,001 to 12,000 gallons	\$ 2.50	\$ 2.85	\$ 4.85
12,001 to 16,000 gallons	\$ 3.00	\$ 2.85	\$ 4.85
16,001 to 20,000 gallons	\$ 3.50	\$ 2.85	\$ 4.85
20,001 to 24,000 gallons	\$ 4.00	\$ 3.41	\$ 4.95
24,001 to 28,000 gallons	\$ 4.50	\$ 3.41	\$ 4.95
28,001 to 32,000 gallons	\$ 5.00	\$ 3.41	\$ 4.95
36,001 to 40,000 gallons	\$ 5.50	\$ 3.41	\$ 4.95
40,001 gallons and above	\$ 6.00	\$ 3.41	\$ 4.95

The rate schedule in Table 3-1 is to be used for the following rate categories for all test year 489 residential and 78 commercial customers and an annual growth of 10 residential customers per year:

Table 3-2. Magruder's Proposed Tubac Rate Structure.

Customer Type	Rate Category		Rates	Number of Customers
Residential	5/8 & 3/4-inch	F1M1A	Same at Table 3-1	461
	1-inch	F1M1B	Same as Table 3-1, capped at \$5.00	41
	2-inch	F1M1D	Same as Table 3-1, capped at \$5.00	3
	3-inch	F1M1E	Same as Table 3-1, capped at \$5.00	1
	Total Residential Customers			489
Commercial	5/8 & 3/4-inch	F2M1A	Same as Table 3-1	47
	1-inch	F2M1B	Same as Table 3-1, capped at \$5.00	16
	1 1/2-inch	F2M1C	Same as Table 3-1, capped at \$5.00	2
	2-inch	F2M1D	Same as Table 3-1, capped at \$5.00	10
	3-inch	F2M1E	Same as Table 3-1, capped at \$5.00	4
	Total Commercial Customers			78
Growth	5/8 & 3/4-inch	F1M1A	Same at Table 3-1	10
Total Customers				549

This schedule makes understanding one's bill easy, because all rates are in dollars and half-dollar amounts. The rate cap for all customers over 3/4-inch service is \$5.00 per 1000 gallons.

Q. Why did you impose a rate cap for all customers with 1-inch or larger service?

A. In general larger usage by the larger customers is less expensive for the Company to serve on a per gallon basis. This replaces the different tier limits in the present rate schedules.

Q. What should the cost of service be for the Tubac Water District?

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A. Just like water commodity usage rates, this water district already has the highest AAWC service charges, and the Company's proposal increases this difference. This is one customer cost that consolidation (see Magruder Issue 3) will make significant changes in Tubac.

There is also second cost of service charge included in this rate case planned for Tubac to fund an arsenic treatment plant (see Magruder Issue 2) for a capital cost of about \$2.5 million. Cost of service charge could increase from the present \$19.68 to Company's proposed \$32.50, to which will be added the Company's proposed Arsenic Service Charge of \$25.98, for a proposed service charge of \$68.48 per month. It is doubtful if any Cost of Service exceeds \$68.48 in Arizona for residential customers. This proposed Cost of Service is 347% higher than the present rate.

As shown in Magruder Exhibit MM-6, with the progressive tiers, the higher usage rates of \$6.00 (or \$5.00) provide considerably more revenue for the Company than the present revenue from water usage. This "extra" revenue is included in this rate structure to cushion the anticipated impacts from customer conservation measures in providing inadequate revenue for the Company. In general, it is proposed not to significantly increase the Cost of Service, thus using a rounded off and an easy-to-understand Cost of Service is proposed for all the rate categories shown in Table 3-3 below:

Table 3-3. Magruder's Proposed Tubac Cost of Service.

Customer Type	Rate Category		Present	Company Proposal	Magruder Proposal	Number of Customers
Residential	5/8 & 3/4-inch	F1M1A	\$ 19.68	\$32.50	\$25.00	461
	1-inch	F1M1B	\$ 29.63	\$ 48.93	\$50.00	41
	2-inch	F1M1D	\$97.49	\$ 161.00	\$100.00	3
	3-inch	F1M1E	\$115.65	\$ 190.99	\$150.00	1
	Total Residential Customers					489
Commercial	5/8 & 3/4-inch	F2M1A	\$ 19.68	\$32.50	\$ 25.00	47
	1-inch	F2M1B	\$ 29.63	\$ 48.93	\$ 50.00	16
	1 ½-inch	F2M1C	\$ 59.26	\$ 97.66	\$ 75.00	2
	2-inch	F2M1D	\$97.49	\$ 161.00	\$ 100.00	10
	3-inch	F2M1E	\$115.65	\$ 190.99	\$ 150.00	4
	Total Commercial Customers					78
Growth	5/8 & 3/4-inch	F1M1A	Same at Residential F1M1A			10
			Total Customers			549

Q. How would a sample residential customer bill change look under your Proposal?

A. Using an average customer with 11,797-gallon usage, this bill should have the following AAWC charges shown in Table 3-4.

Table 3-4. Sample Residential Customer Bill Comparing Company and Magruder Proposals.

Billing Item	Present	Company Proposal			Magruder Proposal		
		Charge	Change			Change	
Cost of Service	\$19.68	\$32.50	+\$12.82	+ 62.8%	\$ 25.00	+\$ 5.32	+25.4%
Average Usage	\$ 49.46	\$85.44	+\$35.98	+72.7%	\$ 26.50	-\$22.96	-53.6%
Total Bill	\$ 69.14	\$117.94	+\$48.80	+ 70.6%	\$ 51.50	-\$17.64	-24.5%

Average Water Usage = 11,797 gallons

Q. Am I reading this table correctly, that the average customer will see a rate decrease?

A. At this point of water usage is where the benefits for lower water consumers crosses from rate reduction to significant rate increases in the third of the ten rate increasing tiers. Half of the water consumed is consumed by customers using less than 11,797 gallons, the other half more. As shown below, this is where the lower usage customers benefit by lower usage and the higher usage customers have increased costs for higher usage. The "price signals" benefits conservation at all level of consumption, with significantly higher costs at 76% at the upper end compared to a 31% decrease at the lower end of the consumption continuum.

Magruder's Commodity Usage	AAWC		Magruder Proposed Change
	Present	Proposed	
First Tier – First 4,000 gallons	\$ 1.89	\$ 1.50	- 31% (1 – (1.50/1.89))
Second Tier – 4,001 to 8,000 gal	\$ 2.85	\$ 2.00	- 29% (1 – (2.00/2.85))
Third Tier – 8,001 to 12,000 gal	\$ 2.85	\$ 2.50	- 12% (1 – (2.50/2.85))
Fourth Tier – 12,001 to 16,000	\$ 2.85	\$ 3.00	+ 5% (1 – (3.00/2.85))
Fifth Tier – 16,001 to 20,000	\$ 2.85	\$ 3.50	+ 22% (1 – (3.50/2.85))
Sixth Tier – 20,001 to 24,000	\$ 3.41	\$ 4.00	+ 17% (1 – (4.00/3.41))
Seventh Tier – 24,001 to 28,000	\$ 3.41	\$ 4.50	+ 32% (1 – (4.50/3.41))
Eight Tier – 28,001 to 32,000	\$ 3.41	\$ 5.00	+ 46% (1 – (5.00/3.41))
Ninth Tier – 32,001 to 36,000	\$ 3.41	\$ 5.50	+ 61% (1 – (5.50/3.41))
Tenth Tier – above 36,001 gallons	\$ 3.41	\$ 6.00	+ 76% (1 – (6.00/3.41))

Q. Are you proposing any additional changes in customer costs?

A. Yes. There are several miscellaneous customer costs that should be included in this rate case. See Table 3-5 below. In the Tubac Water District service area, which is completely within the Santa Cruz Active Management Area, new permits for drilling for private wells will not be issued by ADWR in the SCAMA, thus all new facilities that need water must obtain service from the Tubac Water District.

Thus, it is highly probably that some new water lines will be rather lengthy in the remaining rural areas, and should be purchased by the developer or the one requesting new water service. This party objects to having existing customers funding ANY developer's expenses, for which these new customers must fund, and not by today's ratepayers, for the actual cost. In this table, new Service Line and Meter Installation Charges must be borne by the new customer. The Company needs to consider this a just doing its business, and not give "favors" on this account to anyone.

Due to the rural nature of the Tubac Water District, Meter Test and Re-reading Meter (when correct) need to account for higher gasoline costs and distance, thus each of these two charges was increased. Also increased were the cost for a bounced check (NSF) to \$30.00, which is a more

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common fee used by many companies. The Late Fee charge is raised to a simple 3.0% per month (36.0% APR). The Deferred Payment Financing fee to 1.5% per month (18.0% APR) that is half of the Late Fee charge because to obtain deferred financing the ratepayer has committed to make up unpaid bills to the Company and with a lower Deferred Payment Financing fee this may be enough to ensure the Company collects its proper fees and charges.

Table 3-5. Miscellaneous Charges and Fees

Miscellaneous Customer Cost	Company's		Magruder's Proposed Charge
	Present Charge	Proposed Charge	
Service Line Charge	Actual Cost	Actual Cost	Actual Cost
Meter Installation Charge	Actual Cost	Actual Cost	Actual Cost
Establish, Re-establish, Re-connect Fee (regular hours)	\$ 30.00	\$ 30.00	\$ 30.00
Establish, Re-establish, Re-connect Fee (off hours)	\$ 45.00	\$ 45.00	\$ 60.00
Water Meter Test (if correct)	\$ 10.00	\$ 10.00	\$ 20.00
Meter Re-read (if correct)	\$ 5.00	\$ 5.00	\$ 20.00
Non-Sufficient Funds Check Charge	\$ 10.00	\$ 10.00	\$ 30.00
Late Fee Charge	None	None	3.0% per month (36.0% APR)
Deferred Payment Finance Fee	None	None	1.5% per month (18.0% APR)
Residential Deposit	2 x average bill	2 x average bill	2 x average bill
Non-Residential Deposit	2 x average bill	2 x average bill	2 x average bill
Interest on Deposit	In accordance with ACC Rule 14-2-403(B)		

3.2 Issue No. 2 – Capital Expenses for Tubac Arsenic Treatment Facility

Q. Do you have any additional concerns about Arsenic Treatment?

A. Yes. As this party was filing the initial Testimony in this case, it became obvious that the Application did not contain rationale or adequate information to specify an Arsenic Treatment Facility for the Tubac Water District. When submitting that testimony, this additional background information was then requested from AAWC on 9 January 2009 via two data requests. As of submission of this Testimony on 23 January 2009, the best response from AAWC will be to provide its response on 20 February 2009.

During a Tubac community briefing by senior AAWC personnel in December 2009, the proposed arsenic surcharge for rates and service charges were presented as follows:

Arsenic Basic Cost of Service \$25.98 per residential customer

Volumetric rate \$3.14 per 1,000 gallons

For various monthly water usage, the following Table 3-6 illustrates impacts of the Arsenic charge on customer rates including both the Arsenic Cost of Service + volume usage charge.

Table 3-6. Impact of Arsenic Charges on Residential Bills

Monthly Usage	Present Bill	AAWC Proposed Rates + Arsenic Treatment Charges (new bill)
5,000 gallons	\$ 30.09	\$ 94.15
10,000 gallons	\$ 44.34	\$ 134.10
15,000 gallons	\$ 58.59	\$ 174.05
20,000 gallons	\$ 72.84	\$ 214.00

There is strong support in Tubac for an anticipated and much less costly Point of Use (POU) method of arsenic removal. The Company has yet to provide a Trade-off Study that compares POU versus a "central plant" for this service area. It is reported that 100 residences already have POU reverse osmosis systems installed.

The local Santa Cruz Valley Citizens Council and various Homeowners' Associations are reviewing and analyzing the ADEQ POU Program Guidance document. Additional Company analysis is necessary. So far, nothing appears to be beyond reason to meet these ADEQ program requirements in this service area; however, until a detailed, objective cost-benefit analysis or comprehensive trade off study has been reviewed, consideration of the first two, of the three ADEQ methods of arsenic remediation, (1) central plant, (2) POU, or (3) bottled water, remains open in this water district.

1 **3.3 Issue No. 3 – Consolidation of AAWC Water Districts**

2

3 **Q. Do you still support consolidation of AAWC Water Districts?**

4 **A.**Yes. In addition, the Camelback Inn and Sanctuary's First Set of Data Request, included
5 copies of some prior testimonies by AAWC witness, Mr. Paul Herbert, received late
6 December 2008. In general, these testimonies support tiered rate structures and
7 consolidation.

8

9 **Q. What do you see as being "rates" to consider for consolidation?**

10 **A.**First, I feel that a complete consolidation is possible but will demand the closest oversight.
11 Second, I understand the Administrative & General (A&G) overhead expenses have already
12 been consolidated throughout the Company.

13 Third, specific areas that should be consolidated include:

- 14 1. General & Administrative (completed)
- 15 2. Cost of Service and Volumetric Charges so that more tiers be deployed
- 16 3. Arsenic treatment costs
- 17 4. Taxes, including social security and Medicare
- 18 5. Service Line and Meter Installation Charge (to "actual cost")
- 19 6. Establish, Re-establish, and re-connect fees during regular and off hours
- 20 7. Water Meter Test, (if correct) and Re-read the Meter (that is good)
- 21 8. Non-Sufficient Funds to check charges and Late fees, Deferred Payment Finance
- 22 Charge, Residential and Non-Residential Deposit Interest on Deposits

23 In addition, the Company's Rules and Regulations (R&Rs), submitted, as a part of
24 this rate case, should also be consolidated. In respond to a Magruder Data Request, these
25 R&Rs have not been translated into Spanish.

26 Fourth, this rate case must include consolidation in as many of these areas as possible. An
27 example of consolidation impacts on smaller districts was presented earlier in Part I.

28 **3.4 Issue No. 4 – Removal of Pre-Hearing AAWC Witness Training Expenses**

29

30 **Q. Have you found additional area that may impact the AAWC rate basis?**

31 **A.**Yes. However, these will be sent to AAWC, in the next data request, just after this
32 testimony is submitted to the ACC.

33

34 **Q. Does this complete your testimony?**

35 **A.**Yes.

Appendix B

Exhibit MM-6

**MONTHLY USAGE (BILLS) DATA FOR PRESENT AND PROPOSED
RESIDENTIAL RATES FOR TUBAC WATER DIVISION**

This Exhibit provides a summary of data used to determine and compare the proposed Magruder rate structure. This party proposes a multi-tier increasing and progressive tier-block structure designed to encourage water conservation with increasing rates, especially for residential customers (F1M1A, 5/8 & 3/4 inch) and commercial (F2M1A, 5/8 & 3/4 inch) rate categories. Table MM-6-1 shows the Magruder rate structure and the Company's present and proposed rate structures. The tier structures have different emphasis. The Magruder rate structure starts at its lowest tier at \$1.50 per 1,000 gallons that is \$0.39 below the same tier in the present Company's rates.

Table MM-6-1 provides the total revenue for three different rate structures, summarized as follows:

	Revenue	Change in \$	in %
AAWC Present Rate Structure	\$ 149,148.69	+ \$ 0	0%
AAWC Proposed Rate Structure	\$ 266,568.34	+ \$ 117,419	+ 79%
Magruder Proposed Rate Structure	\$ 215,191.50	+ \$ 65,043	+ 44%

For these two revenue classes (F1M1A and F2M1A), excluding growth, the Magruder rate structure provides 44% more revenue for AAWC, using the philosophy and nearly linear rate increases as customers use more water.

1. Company's Present and Proposed Rate Structures.

The Company's proposed rate structure is diametrically opposed to sending price signals to conserve water.

Company's Commodity Usage	Present	Proposed	Proposed Change
First Tier – First 4,000 gallons	\$ 1.89	\$ 3.78	200% (3.78/1.89)
Second Tier – Next 16,000 gallons	\$ 2.85	\$ 4.85	170% (4.85/2.85)
Third Tier – Over 20,000 gallons	\$ 3.41	\$ 4.95	145% (4.95/3.41)

- a. The Company's proposed lowest tier is 2.66 times the present lowest tier rate ($3.78 \div 1.89 = 2.66$). When compared to the highest rate tier, the Company's highest tier is 1.42 ($4.95 \div 3.41 = 1.42$) times the present and same tier. This proposed decrease in emphasis does NOT encourage conservation as claimed by the Company, and it is obvious, this reduces sending a price signal.
- b. There is only a \$0.10 change between tiers two and three, a minimal increase. This is NOT a price signal.
- c. As shown in Table MM-6-1 below, the revenue based on these rates is as follows.

2. Magruder's Proposed and Present Rate Structures.

The Magruder's proposed rate structure provides reduced rates for the lowest consumers, and raises rates for the highest consumers.

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Magruder's Commodity Usage	AAWC Present	Magruder Proposed	Proposed Change
First Tier – First 4,000 gallons	\$ 1.89	\$ 1.50	- 31% (1 – (1.50/1.89))
Second Tier – 4,001 to 8,000 gal	\$ 2.85	\$ 2.00	- 29% (1 – (2.00/2.85))
Third Tier – 8,001 to 12,000 gal	\$ 2.85	\$ 2.50	- 12% (1 – (2.50/2.85))
Fourth Tier – 12,001 to 16,000	\$ 2.85	\$ 3.00	+ 5% (1 – (3.00/2.85))
Fifth Tier – 16,001 to 20,000	\$ 2.85	\$ 3.50	+ 22% (1 – (3.50/2.85))
Sixth Tier – 20,001 to 24,000	\$ 3.41	\$ 4.00	+ 17% (1 – (4.00/3.41))
Seventh Tier – 24,001 to 28,000	\$ 3.41	\$ 4.50	+ 32% (1 – (4.50/3.41))
Eighth Tier – 28,001 to 32,000	\$ 3.41	\$ 5.00	+ 46% (1 – (5.00/3.41))
Ninth Tier – 32,001 to 36,000	\$ 3.41	\$ 5.50	+ 61% (1 – (5.50/3.41))
Tenth Tier – above 36,001 gallons	\$ 3.41	\$ 6.00	+ 76% (1 – (6.00/3.41))

3. Magruder's Proposed Rate Structure and AAWC Rate Structure.

When comparing the Magruder versus the proposed AAWC rates,

Magruder's Commodity Usage	Magruder Proposed	AAWC Proposed	Magruder Proposed Change
First Tier – First 4,000 gallons	\$ 1.50	\$ 3.78	- 152% (1 – (3.78/1.50))
Second Tier – 4,001 to 8,000 gal	\$ 2.00	\$ 4.85	- 143% (1 – (4.85/2.00))
Third Tier – 8,001 to 12,000 gal	\$ 2.50	\$ 4.85	- 94% (1 – (4.85/2.50))
Fourth Tier – 12,001 to 16,000	\$ 3.00	\$ 4.85	- 62% (1 – (4.85/3.00))
Fifth Tier – 16,001 to 20,000	\$ 3.50	\$ 4.85	- 39% (1 – (4.85/3.50))
Sixth Tier – 20,001 to 24,000	\$ 4.00	\$ 4.95	- 24% (1 – (4.95/4.00))
Seventh Tier – 24,001 to 28,000	\$ 4.50	\$ 4.95	- 10% (1 – (4.95/4.50))
Eighth Tier – 28,001 to 32,000	\$ 5.00	\$ 4.95	+ 1% (1 – (4.95/5.00))
Ninth Tier – 32,001 to 36,000	\$ 5.50	\$ 4.95	+ 10% (1 – (4.95/5.50))
Tenth Tier – above 36,001 gallons	\$ 6.00	\$ 4.95	+ 19% (1 – (4.95/6.00))

Table MM-6-1, compares the Magruder, Present and Proposed Rates and the Company's Revenue for the progressive tiers.

**Table MM-6-1. Monthly Usage (bills) Data for Present and Proposed Rates
For the Tubac Water Division in the Test Year (2007), Residential and Commercial Rate Categories.
(5/8 & 3/4-inch F1M1A and F1M2A).**

Test Year Usage and Bills			Magruder Proposal		Company Present		Company PROPOSAL			
Usage (x 1000 gallons)	# of Bills	Total Usage	Proposed Magruder Rate	Proposed Magruder Revenue	Company Rate	PRESENT Company revenue	Proposed Rates	Proposed Company Revenue	Cum Bills (Σ)	Cum % of Bills
(a)	(b)	(c) = (a) x (b)	(d)	(e) = (c) x (d)	(e)	(f) = (c) x (e)	(g)	(h) = (c) x (g)	(i) = (a) + (a-1)	(j) = (i) / 5411
0	499	0	1.50	0.00	\$1.89	0.00	3.78	0	499	9.2%
1	361	361	1.50	\$ 541.60	\$1.89	\$ 682.29	3.78	\$1,364.58	860	15.9%
2	338	676	1.50	\$ 1,014.00	\$1.89	\$1,277.64	3.78	\$2,555.28	1198	22.1%
3	338	1,014	1.50	\$ 1,521.00	\$1.89	\$1,916.46	3.78	\$3,832.92	1536	28.4%
4	320	1,280	1.50	\$ 1,920.00	\$1.89	\$2,419.40	3.78	\$4,834.40	1856	34.3%
5	299	1,495	2.00	\$ 2,990.00	\$2.85	\$4,260.75	4.85	\$7,250.75	2155	39.8%
6	283	1,698	2.00	\$ 3,396.00	\$2.85	\$4,839.30	4.85	\$8,235.30	2438	45.1%
7	274	1,918	2.00	\$ 3,836.00	\$2.85	\$5,466.30	4.85	\$9,302.30	2712	50.1%
8	219	1,752	2.00	\$ 3,504.00	\$2.85	\$4,993.20	4.85	\$8,497.20	2931	54.2%
9	222	1,998	2.50	\$ 4,995.00	\$2.85	\$5,694.30	4.85	\$9,690.30	3153	58.3%
10	177	1,770	2.50	\$ 4,425.00	\$2.85	\$5,044.50	4.85	\$8,584.50	3330	63.5%
11	173	1,903	2.50	\$ 4,757.50	\$2.85	\$5,423.55	4.85	\$9,229.55	3503	64.7%

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For the Tubac Water Division in the Test Year (2007), Residential and Commercial Rate Categories.
(5/8 & 3/4-inch F1M1A and F1M2A).**

Test Year Usage and Bills			Magruder Proposal		Company Present		Company PROPOSAL			
Usage (x 1000 gallons)	# of Bills	Total Usage	Proposed Magruder Rate	Proposed Magruder Revenue	Company Rate	PRESENT Company revenue	Proposed Rates	Proposed Company Revenue	Cum Bills (Σ)	Cum % of Bills
12	138	1,656	2.50	\$ 4,140.00	\$2.85	\$4,719.60	4.85	\$8,031.60	3641	67.3%
13	150	1,950	3.00	\$ 5,850.00	\$2.85	\$5,557.50	4.85	\$9,457.50	3791	70.1%
14	134	1,876	3.00	\$ 5,628.00	\$2.85	\$5,346.60	4.85	\$9,098.60	3925	72.5%
15	107	1,605	3.00	\$ 4,815.00	\$2.85	\$4,574.25	4.85	\$7,784.25	4032	74.5%
16	115	1,840	3.00	\$ 5,520.00	\$2.85	\$5,244.00	4.85	\$8,924.00	4147	76.6%
17	108	1,836	3.50	\$ 6,426.00	\$2.85	\$5,232.60	4.85	\$8,904.60	4255	78.6%
18	82	1,476	3.50	\$ 5,166.00	\$2.85	\$4,206.60	4.85	\$7,158.60	4337	80.1%
19	88	1,672	3.50	\$ 5,852.00	\$2.85	\$4,765.20	4.85	\$8,109.20	4425	81.8%
20	77	1,540	3.50	\$ 5,390.00	\$2.85	\$4,389.00	4.85	\$7,624.30	4502	83.2%
21	74	1,554	4.00	\$ 6,216.00	\$3.41	\$5,299.14	4.95	\$7,692.30	4576	84.6%
22	57	1,254	4.00	\$ 5,016.00	\$3.41	\$4,276.14	4.95	\$6,207.30	4633	85.6%
23	50	1,150	4.00	\$ 4,600.00	\$3.41	\$3,921.50	4.95	\$5,692.50	4683	86.5%
24	53	1,272	4.00	\$ 5,088.00	\$3.41	\$4,337.52	4.95	\$6,296.40	4736	87.5%
25	59	1,475	4.50	\$ 6,637.50	\$3.41	\$5,029.75	4.95	\$7,301.25	4795	88.6%
26	35	910	4.50	\$ 4,095.00	\$3.41	\$3,103.10	4.95	\$4,504.50	4830	89.3%
27	51	1,377	4.50	\$ 6,196.50	\$3.41	\$4,695.57	4.95	\$6,816.15	4881	90.2%
28	39	1,092	4.50	\$ 4,914.00	\$3.41	\$3,723.72	4.95	\$5,405.40	4920	91.0%
29	30	870	5.00	\$ 4,350.00	\$3.41	\$2,966.70	4.95	\$4,315.20	4950	91.5%
30	29	870	5.00	\$ 4,350.00	\$3.41	\$2,966.70	4.95	\$4,315.20	4979	92.0%
31	24	744	5.00	\$ 3,720.00	\$3.41	\$2,537.04	4.95	\$3,682.80	5003	92.5%
32	26	832	5.00	\$ 4,160.00	\$3.41	\$2,837.12	4.95	\$4,118.40	5029	92.9%
33	21	693	5.50	\$ 3,811.50	\$3.41	\$2,363.13	4.95	\$3,430.35	5050	93.3%
34	25	850	5.50	\$ 4,675.00	\$3.41	\$2,898.50	4.95	\$4,207.50	5075	93.8%
35	22	770	5.50	\$ 4,235.00	\$3.41	\$2,625.70	4.95	\$3,811.50	5097	94.2%
36	27	972	5.50	\$ 5,346.00	\$3.41	\$3,314.52	4.95	\$4,811.40	5124	94.7%
37	13	481	6.00	\$ 2,886.00	\$3.41	\$1,640.21	4.95	\$2,380.95	5127	94.8%
38	23	874	6.00	\$ 5,244.00	\$3.41	\$2,980.34	4.95	\$4,326.30	5160	95.4%
39	18	702	6.00	\$ 4,212.00	\$3.41	\$2,393.82	4.95	\$3,474.90	5178	95.7%
40	18	720	6.00	\$ 4,320.00	\$3.41	\$2,455.20	4.95	\$3,542.40	5196	96.0%
41	19	779	6.00	\$ 4,674.00	\$3.41	\$2,656.39	4.95	\$3,856.05	5215	96.3%
42	7	294	6.00	\$ 1,764.00	\$3.41	\$1,002.54	4.95	\$1,455.30	5222	96.5%
43	11	473	6.00	\$ 2,838.00	\$3.41	\$1,612.93	4.95	\$2,341.35	5233	96.7%
44	7	308	6.00	\$ 1,848.00	\$3.41	\$1,050.28	4.95	\$1,524.60	5240	96.8%
45	10	450	6.00	\$ 2,700.00	\$3.41	\$1,534.50	4.95	\$2,227.50	5250	97.0%
46	9	414	6.00	\$ 2,484.00	\$3.41	\$1,411.74	4.95	\$2,049.30	5259	97.2%
47	13	611	6.00	\$ 3,666.00	\$3.41	\$2,083.51	4.95	\$3,024.45	5272	97.4%
48	5	240	6.00	\$ 1,440.00	\$3.41	\$818.40	4.95	\$1,188.00	5277	97.5%
49	7	343	6.00	\$ 2,058.00	\$3.41	\$1,169.63	4.95	\$1,697.85	5284	97.7%
50	7	350	6.00	\$ 2,100.00	\$3.41	\$1,193.50	4.95	\$1,732.50	5291	97.8%
51	8	406	6.00	\$ 2,436.00	\$3.41	\$1,384.46	4.95	\$2,009.70	5299	97.9%
52	7	364	6.00	\$ 2,184.00	\$3.41	\$1,241.24	4.95	\$1,801.80	5306	98.1%
53	6	318	6.00	\$ 1,908.00	\$3.41	\$1,084.38	4.95	\$1,574.10	5312	98.2%
54	6	324	6.00	\$ 1,944.00	\$3.41	\$1,104.84	4.95	\$1,603.80	5318	98.3%
55	6	330	6.00	\$ 1,980.00	\$3.41	\$1,125.30	4.95	\$1,633.50	5324	98.4%
56	9	504	6.00	\$ 3,024.00	\$3.41	\$1,718.64	4.95	\$2,494.80	5333	98.6%
57	5	285	6.00	\$ 1,710.00	\$3.41	\$971.85	4.95	\$1,410.75	5338	98.7%
58	2	116	6.00	\$ 696.00	\$3.41	\$395.56	4.95	\$574.20	5340	98.7%
59	4	236	6.00	\$ 1,416.00	\$3.41	\$804.76	4.95	\$1,168.20	5344	98.7%

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For the Tubac Water Division in the Test Year (2007), Residential and Commercial Rate Categories.
(5/8 & 3/4-inch F1M1A and F1M2A).**

Test Year Usage and Bills			Magruder Proposal		Company Present		Company PROPOSAL			
Usage (x 1000 gallons)	# of Bills	Total Usage	Proposed Magruder Rate	Proposed Magruder Revenue	Company Rate	PRESENT Company revenue	Proposed Rates	Proposed Company Revenue	Cum Bills (Σ)	Cum % of Bills
60	3	180	6.00	\$ 1,080.00	\$3.41	\$613.80	4.95	\$891.00	5347	98.8%
61	8	488	6.00	\$ 2,928.00	\$3.41	\$1,664.08	4.95	\$2,415.16	5355	99.0%
62	1	62	6.00	\$ 372.00	\$3.41	\$211.65	4.95	\$306.90	5356	99.0%
63	2	126	6.00	\$ 756.00	\$3.41	\$429.66	4.95	\$623.71	5358	99.0%
64	2	128	6.00	\$ 768.00	\$3.41	\$436.48	4.95	\$633.60	5360	99.1%
65	1	65	6.00	\$ 390.00	\$3.41	\$221.65	4.95	\$321.75	5361	99.1%
66	2	132	6.00	\$ 792.00	\$3.41	\$450.12	4.95	\$653.40	5363	99.1%
67	3	201	6.00	\$ 1,206.00	\$3.41	\$685.41	4.95	\$994.95	5366	99.2%
68	3	204	6.00	\$ 1,224.00	\$3.41	\$695.64	4.95	\$1,009.80	5369	99.2%
69	2	138	6.00	\$ 828.00	\$3.41	\$470.58	4.95	\$683.10	5371	99.3%
70	3	210	6.00	\$ 1,260.00	\$3.41	\$716.10	4.95	\$1,039.80	5374	99.3%
71	1	71	6.00	\$ 426.00	\$3.41	\$242.11	4.95	\$351.45	5375	99.3%
72	3	216	6.00	\$ 1,296.00	\$3.41	\$736.56	4.95	\$1,069.20	5378	99.4%
73	1	73	6.00	\$ 438.00	\$3.41	\$248.93	4.95	\$361.35	5379	99.4%
74	3	222	6.00	\$1,322.00	\$3.41	\$757.02	4.95	\$1,098.80	5382	99.5%
75	1	75	6.00	\$ 450.00	\$3.41	\$255.75	4.95	\$371.25	5383	99.5%
76	2	152	6.00	\$ 912.00	\$3.41	\$518.32	4.95	\$752.40	5385	99.5%
77	2	154	6.00	\$ 924.00	\$3.41	\$525.14	4.95	\$762.30	5387	99.6%
78	1	78	6.00	\$ 468.00	\$3.41	\$265.98	4.95	\$383.76	5388	99.6%
80	1	80	6.00	\$ 480.00	\$3.41	\$272.80	4.95	\$396.00	5389	99.6%
81	2	162	6.00	\$ 972.00	\$3.41	\$552.42	4.95	\$801.90	5391	99.7%
82	2	164	6.00	\$ 984.00	\$3.41	\$559.24	4.95	\$811.80	5393	99.7%
83	2	166	6.00	\$ 996.00	\$3.41	\$566.06	4.95	\$821.70	5395	99.7%
84	1	84	6.00	\$ 504.00	\$3.41	\$286.44	4.95	\$415.80	5396	99.7%
86	1	86	6.00	\$ 516.00	\$3.41	\$293.26	4.95	\$524.60	5397	99.7%
87	2	174	6.00	\$ 1,044.00	\$3.41	\$593.26	4.95	\$861.30	5399	99.7%
97	1	97	6.00	\$ 582.00	\$3.41	\$330.77	4.95	\$480.15	5400	99.7%
103	2	206	6.00	\$1,236.00	\$3.41	\$702.46	4.95	\$1,019.70	5402	99.8%
106	1	106	6.00	\$ 636.00	\$3.41	\$361.46	4.95	\$524.70	5403	99.8%
110	1	110	6.00	\$ 660.00	\$3.41	\$375.10	4.95	\$544.70	5404	99.8%
113	1	113	6.00	\$ 678.00	\$3.41	\$385.33	4.95	\$559.35	5405	99.8%
133	1	133	6.00	\$ 798.00	\$3.41	\$453.53	4.95	\$658.35	5406	99.9%
140	1	140	6.00	\$ 840.00	\$3.41	\$477.50	4.95	\$693.00	5407	99.9%
162	1	162	6.00	\$ 972.00	\$3.41	\$552.42	4.95	\$801.90	5408	99.9%
191	1	191	6.00	\$ 1,146.00	\$3.41	\$651.31	4.95	\$945.45	5409	99.9%
221	1	221	6.00	\$ 1,326.00	\$3.41	\$753.61	4.95	\$1,093.95	5410	99.9%
232	1	232	6.00	\$ 1,392.00	\$3.41	\$791.12	4.95	\$1,148.40	5411	100%
	5411	46,004		\$186,952.50		\$149,148.69		\$266,568.34		

Data in this table was from the AAWC Application, Schedule H, for columns (a), (b), (c), (e), (g), (i). Column (d) is the Magruder proposed rate structure. Column (e) from multiplying (c) x (d); Column (f) from multiplying (c) x (e); Column (h) from multiplying (c) x (g) and Column (j) by dividing the number of bills for the usage in Column (i) divided by the total bills (5,411) in the Test Year, to determine the cumulative percentage.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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MAR - 2 2009

ARIZONA CORP. COMM
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IN THE MATTER OF THE APPLICATION OF ARIZONA-
AMERICAN WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS RATES AND
CHARGES BASED THEREON FOR UTILITY SERVICE
BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER
DISTRICT, MOHAVE WATER DISTRICT, PARADISE
VALLEY WATER DISTRICT, SUN CITY WEST WATER
DISTRICT, AND TUBAC WATER DISTRICT

Docket No. W-01303A-08-0227

IN THE MATTER OF THE APPLICATION OF ARIZONA-
AMERICAN WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS RATES AND
CHARGES BASED THEREON FOR UTILITY SERVICE
BY ITS MOHAVE WASTEWATER DISTRICT

Docket No. SW-01303A-08-0227

Notice of Filing the
Surrebuttal Testimony (Part III)
by
Marshall Magruder

This filing has been mailed to known and interested parties in the Service List.

Respectfully submitted on this 3rd day of March 2009

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1
2
3
4 **SURREBUTTAL TESTIMONY**
5

6 **(Part III)**
7

8 **by**
9

10 **MARSHALL MAGRUDER**
11
12
13
14
15

16
17 **3 March 2009**
18
19

20 **In**
21

22 **IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN**
23 **ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS**
24 **UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED**
25 **THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER**
26 **DISTRICT, MOHAVE WATER DISTRICT, PARADISE VALLEY WATER DISTRICT, SUN CITY**
27 **WEST WATER DISTRICT, AND TUBAC WATER DISTRICT**

28 **ACC Docket No. W-01303A-08-0227**
29

30 **And**
31

32 **IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN**
33 **ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS**
34 **UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED**
35 **THEREON FOR UTILITY SERVICE BY ITS MOHAVE WASTEWATER DISTRICT**

ACC Docket No. SW-01303A-08-0227

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Section 1 – BACKGROUND AND INTRODUCTION

1.1 INTRODUCTION. See Part I, page 5.¹

1.2 PURPOSE OF TESTIMONY [in Part I]. See Part I, page 7.²

1.3 PURPOSE OF TESTIMONY in Part II. See Part II, page 7.

1.4 PURPOSE OF TESTIMONY IN Part III.

Q. What is the purpose of this Part III testimony?

A. The purpose is to provide rebuttal testimonial information for each issue with additional evidence and details. The four Issues in Part I and Part II are and remain unchanged in Part II, unless specifically corrected or modified in this Surrebuttal Testimony.

Q. Have you received timely and complete results during the discovery process?

A. In general yes; however, several responses involving arsenic measurements and remediation facilities were received so late the planned detailed data analysis could not be accomplished.

Q. Can you explain this further?

A. Yes. It is important for the small Tubac Water District to remove the arsenic from its drinking water. In February 2008, a prior exception to delay implementation was overturned by the US Environmental Protection Agency (EPA), thus eliminating any delay to implement. We understand a single arsenic reading exceeded 35 ppb triggered this EPA action. As shown in Part I, our last two 2008 quarterly arsenic readings had an annual average reading of 24 and 25 ppb and 27 ppb was recently reported for the first quarter of 2009.³ Through a data request by this party, additional measurements, standards, and other factors leading to up determination since 1970 were requested, along with background information concerning an arsenic treatment facility (ATF) in Tubac with service charges and volumetric rates, higher than any other AAWC ATF.

Furthermore, background information about the much less expensive Point of Use (POU) arsenic removal process was provided over a month after the request. Due to the significant ratepayer cost differential between the POU and ATF proposed by AAWC in 2005, detailed objective trade-study rationale for non-selection of the POU process was needed. On 13 February 2009, significantly exceeding the data request response requirements in this Rate Case's Procedural Order, it was received.

¹ Direct Testimony (Issues) of Marshall Magruder, dated 9 January 2009, hereafter Magruder Testimony Part I.

² Direct Testimony (Cost of Service and Rate Design) of Marshall Magruder, dated 23 January 2009, hereafter Magruder Testimony Part II.

³ These are AAWC letters to all Tubac Customers titled "Tubac Public Notice for Arsenic" each quarter.

1 **Part I**
2 **Section 2 – Issues in this Testimony – See Part I, pages 8-14.**

3 **Part ii**
4 **Section 3 – Cost of Service and Rate Structure Testimony – See Part II, pages 7 to 16.**

5 **Part III**
6
7 **Section 4 – SURREBUTTAL TESTIMONY**

8
9 **4.0 ORGANIZATION OF THIS TESTIMONY**

10 **Q. How is the testimony organized?**

11 **A.** Section 4 contains the Surrebuttal Testimony in response to the company's Rebuttal
12 Testimony of 11 February 2009, additional testimony by other parties, proposed rate structure, cost
13 of service, and miscellaneous charges and fees and arsenic issues. The issues raised in Part I,
14 expanded in Part II, continue. The Table of Contents is inclusive for all parts, as indicated prior to
15 page numbers. This Part III is the Surrebuttal Testimony of Marshall Magruder. In this Surrebuttal,
16 responses are provided for each AAWC rebuttal concerning my Part I and Part II Testimonies.

17 **Q. Can you summarize your Surrebuttal Testimony?**

18 **A.** My initial Direct Testimony Part I, I outlined four issues that were expanded in Part II.

19 **Issue 1 – Conservation as a Significant Driver of Water Volumetric Rates.** The
20 Company's Rebuttal failed to understand the importance of sending price signals as a way to
21 conserve water in Tubac and the other water districts. The RUCO and ACC Staff rate proposals had
22 weak price signals compared to that proposed by this party.

23 **Issue 2 – Capital Expenses for Tubac Arsenic Removal Facility.** The Company's
24 Rebuttal stressed the proposed Arsenic Cost Recovery Mechanism approach which is contrary to
25 rate consolidation (Issue 3) as addressed in prior testimony by its witness. The Santa Cruz Valley
26 Citizens Council (SCVCC), a Santa Cruz Valley non-profit organization, in coordination with the
27 Company has submitted a request through Congresswoman Giffords for federal assistance for the
28 funding of this very expensive \$2.3 million arsenic removal facility that would otherwise be paid
29 solely by the Company's customers in Tubac. The Company in coordination with the SCVCC is in
30 the process of requesting federal stimulus assistance through the Arizona Water Infrastructure
31 Facility (WIFA).

32 **Issue 3 – Consolidation of AAWC Water Districts.** Upon review of RUCO's
33 comprehensive approach for service and commodity rate consolidation based on present rates,
34 prior American Water Company (AWC) testimonies, and AAWC's Rebuttal, there is consensus that
35 customers with the highest rates have much more significant rate reductions than the rate increases

1 experienced by those with lower rates. This party supports full rate and fee consolidations including
2 having the Company, RUCO, and ACC Staff submit a single set of Consolidated Rate Schedules,
3 based on the rates being proposed by each. I recommend that Consolidated Rates and Fees be
4 implemented for all five water districts and that the next AAWC rate cases these other water districts
5 be incorporated within revised Consolidated Rates and Fees in order to have fair and reasonable
6 rates throughout Arizona.

7 **Issue 4 – Removal of Pre-Hearing AAWC Witness Training and Other Expenses.** The
8 Company has removed from its rate case costs the \$10,000 requested for such training but then
9 added another \$10,000 to its Rate Case expenses. In my opinion, AAWC should have included
10 Consolidated Rates as its first approach, based on evidence discussed in Issue 3 above, as a
11 routine business practice in preparation for this rate case. This is not a new, unexpected expense.

4.1 ISSUE NO. 1 – CONSERVATION AS A SIGNIFICANT DRIVER OF WATER VOLUMETRIC RATES

4.1.1 Response to AAWC Mr. Broderick Rebuttal.

Q. Did the Company understand the Magruder proposal to conserve water with a multi-tiered rate structure?

A. No. For example, in the Company's Rebuttal Testimony by Thomas Broderick, he questioned, "Mr. Magruder wants the third pricing block for Tubac to be very expensive."⁴

Q. Do you consider your highest rates to be "very expensive"?

A. Based on comparison with other local rates and prior AAWC rate requests, not at all. Let me explain where Mr. Broderick and I have differences.

As was shown in Table 3-1 of the Magruder Testimony Part II, repeated below with proposed RUCO and ACC Staff recommendations is included as Table 4-1. The Company proposed a nearly continuously flat rate structure after the first 4,000-gallon block with only a 10-cent difference, from \$4.85 to \$4.95, starting at 20,000 gallons.⁵ The highest rate, I have proposed is at \$6.00/1000 gallons, only \$1.05 higher than that proposed by the Company.

Table 4-1. Present and Updated Proposed Tubac Residential Rate Schedules.

[in consumer cost per 1,000 gallons for 5/8 and 3/4-inch meters]

Commodity Usage Tiers	Magruder Proposed Rates	Company Present Rates	Company Proposed Rates	RUCO Proposed Rates ⁶	ACC Staff Proposed Rates ⁷
First 4,000 gallons	\$1.50	\$ 1.89	\$ 3.78	\$3.4125	\$2.76
4,001 to 8,000 gallons	\$ 2.00	\$ 2.85	\$ 4.85	\$ 4.3785	\$3.90
8,001 to 12,000 gallons	\$ 2.50				
12,001 to 16,000 gallons	\$ 3.00				
16,001 to 20,000 gallons	\$ 3.50				
20,001 to 24,000 gallons	\$ 4.00	\$ 3.41	\$ 4.95	\$ 4.688	\$4.98
24,001 to 28,000 gallons	\$ 4.50				
28,001 to 32,000 gallons	\$ 5.00				
32,001 to 36,000 gallons	\$ 5.50				
Above 36,001 gallons	\$ 6.00				

The rate of \$6.00/1000 gallons is considerably less than another local water company discussed in Part I of the Magruder Testimony, where the volumetric rate for consumption

⁴ Rebuttal Testimony of Thomas A. Broderick, AAWC, dated 11 February 2009, hereafter Broderick Rebuttal, page 17 at 14-15.

⁵ Magruder Testimony Part II, on page 11 at 1 to 10. A correction was made in the last two tiers blocks.
⁶ Direct Rate Design Testimony of Rodney L. Moore, RUCO, 20 January 2009, hereafter Moore Rate Design Testimony, Schedule RLM-RD-1, page 1.

⁷ Direct Testimony of Marvin E. Millsap, ACC Staff, 20 January 2009, hereafter Millsap Testimony, Table MEM-1, page 1.

over 4,001 gallons/month is \$10.00/1000 gallons and for consumption over 15,001 gallons is \$20.00/1000 gallons.⁸ These rates might be considered "expensive."

It is noted, that the Company in 2002, proposed an even higher rate for the third tier of \$6.0022/1000 gallons when consumption was 20,000 gallons or higher.⁹

Q. What else did Mr. Broderick not understand about your Proposed Rate Structure?

A. He continued with a statement that completes his lack of understanding the proposed volumetric rate structure:

"Higher use water consumers in Tubac are price sensitive and drill private wells to fully or partially bypass our system. Even though these wells are expensive, we saw a number of new wells drilled several years ago when the topic of the cost of arsenic facility first came up. Since most of our costs are fixed costs, such dramatic conservation only serves to raise rates later for the remaining customers."¹⁰

First, if the Company complied with the provisions of A.R.S. §45-454C, then new "exempt" wells may be able to be drilled within 100 feet of or inside the boundary of the Tubac service area after 1 January 2006.¹¹ The Company has not requested from ADWR that new wells be prohibited in this area. New wells can still be drilled today. See Appendix B for Magruder Exhibit MM-7 for A.R.S. §45-454.

Second, as noted in the above quote, it was the "cost of arsenic facility" and not the volumetric cost of water that was the most significant factor for drilling these new wells.

Third, these wells were not a "conservation" measure but an action that fears of the exorbitant plans by the Company for rates exceeding \$200/month, miscommunications with the public, and installations of reverse osmosis filters to avoid arsenic by many customers were causes for these. In my opinion, these were fruitless and wasteful drilling measures. If only the Company had handled this historic drilling event in a wiser manner.

Fourth, the nearly horizontal proposed rate structure has NO price signal impact for customers, and without a price signal, using other means to make customer behavioral changes to conserve water will be less effective.¹²

Fifth, Mr. Broderick misunderstood the significance of the conservation changes proposed by the multi-tiered Magruder rate structure, that is, lower usage consumers will

⁸ Magruder Testimony Part I, page 9 at 25 to page 10 at 27, and Exhibit MM-2, page 25 at 7 to 9.
⁹ See ACC Docket No. WS-01303A-02-0867, et al, AAWC Application, proposed Schedule 10.

¹⁰ Broderick Rebuttal, p. 18 at 16 to 20.

¹¹ Interview by Marshall Magruder of Alejandro Barcenas, ADWR Director Santa Cruz AMA, at ADWR Office in Nogales, Arizona, on 25 February 2009, hereafter Magruder-Barcenas Interview. There are some exceptions for the subsection 45-454C prohibition against new exempt wells after 1 January 2006, in particular subsections 45-454, E, F, and I, provide limited exceptions that could only rarely be applicable.

¹² This is discussed in more detail later.

1 see their volumetric rates lowered and while higher usage consumers will have their
2 volumetric rates increased as a deliberate conservation measure.

3 In summary, the proposed rate structure does NOT promote conservation, in an Active
4 Management Area, where future growth is limited based on the SCAMA requirements to
5 maintain sustainability in water resources as required by the Santa Cruz Comprehensive
6 Plan, Water Resources Element, where "water supplies are protected and conserved."¹³

7
8 **Q. Can AAWC prevent drilling new wells in its Tubac service area?**

9 **A.** Definitely, yes and it should. This was discussed during an interview with Mr. Alejandro
10 Barcenas, the Arizona Department of Water Resources (ADWR) Director of the Santa Cruz
11 Active Management Area. He said ADWR needs a request from the Company to prohibit
12 new well drilling in or within 100 feet of its service area, as permitted by A.S.R. §45-454C.
13 This request needs to include a digital map of its service area with the application. He also
14 said that the adjacent Baca Float Water Company, with a similar customer base, has
15 prohibited any future well drilling in its service area.¹⁴

16 **Q. Is it correct to summarize this testimony that Mr. Broderick's rebuttal offered no**
17 **evidence that using higher rates for highest consumers and lower rates for the lowest**
18 **consumers would not benefit real water conservation in the Tubac service area?**

19 **A.** That is correct.

20
21 **Q. Do you have other testimony concerning use of rates to promote water conservation?**

22 **A.** Yes. In an American Water Company-New Jersey rate case, AWC and AAWC's witness in
23 this case, testified and provided a "conservation plan" to be used as a pilot program. He
24 proposed a three-tier rate structure with the first 4,000 gallons at 10% less than the
25 proposed 14.3% rate increase, from 5,000 to 10,000 gallons at 5% higher than the proposed
26 28.3% rate increase, and above 10,000 gallons at 15% higher than the proposed 31% rate
27 increase. This steepens the rate curve, which is exactly what this party has proposed.¹⁵

28 We differ not in principle but only in the slope of the curve and number of tiers.

29
30
31 ¹³ Magruder Testimony Part I, Exhibit MM-3, The 2005 Santa Cruz County Comprehensive Plan – Water
32 Resources Element, pages 26 to 29. For a county the size of Santa Cruz County, this is an optional plan
33 element but water is so important that it was included. For example, the hydrological conditions in the
34 SCAMA are unique,

35 ¹⁴ Magruder-Barcenas Interview, 25 February 2009.

¹⁵ Direct Testimony of Paul R. Herbert, before the New Jersey Board of Public Utilities, in the matter of the
Joint Petition of New Jersey-American Water Company, Inc., Approval of Increased Tariff Rates and
Charges for Water and Sewer Service, Exhibit PT-12, hereafter, Hubert NJ-AWC Testimony, Conservation
Rate Pilot Program section, pages 14 to 15, in Appendix B, as Magruder Exhibit MM-8.

1 **Q. Why do you support ten-tiers instead of the traditional three-tier rate structure?**

2 **A.** To make a clear price signal obvious to a consumer and, most important, a signal for a
3 consumer to make the change(s) in behavior to lower consumption in order to reach the next
4 lower-tiered rate. If it is not possible to reach a lower tier or that the rate difference for
5 meeting that tier is insignificant, then consumers have no reason to save money by
6 conserving water.

7 Due to the critical differences in water resource available between New Jersey and
8 Arizona, the slope of this curve needs to be much steeper to really conserve water. This is
9 why proposed rates increasing every 4,000 gallons at \$0.50/1000 gallons, starting at
10 \$1.50/1000 gallons and increasing to \$6.00/1000 gallons when consumption exceeds
11 36,001 gallons in a month.

12 The slope of increasing commodity rates for this approach continues to increase with
13 more consumption instead of minor three-stepped rate changes proposed. When using just
14 three steps, for a customer to move from the third tier to the first requires, in the NJ plan,
15 only 5,000 gallons; however, in the AAWC proposed three-tier approach, a change of
16 several times a 4,000 gallon block consumption is required to make a significant change in
17 rates. Customers can change consumption 4,000 gallons but to make leaps over 10,000
18 gallons may not be even feasible for some consumers. Also, looking at the Chi-squared
19 distributions, the "long tail" needs "price signals" for individuals to make behavior changes
20 (to conserve) and none of the AAWC "tiers" have such signals, other than the extremely long
21 tail already found in the Paradise Valley five-tier rate structure. Maybe another five or more
22 tiers for the Paradise Valley consumers might send price signal to that water district.

23 **Q. What else should be done to help Consumers Conserve water?**

24 **A.** In my opinion, the terms "water conservation" and "water efficiency" are needed to separate
25 the human actions, e.g., changing in behavior, from means to improve the efficiency of water
26 use. The later, water efficiency, uses physical devices to both help the human change
27 behavior or to restrict water usage. Conservation involves human behavior changes that are
28 usually limited being measured by subjective means while efficiency improvements involve
29 elements that have cost and can thus be better and objectively evaluated with measures
30 such as cost-to-benefit ratios.

31 The Company's water conservation program includes classic conservation measures
32 (which I'd term as 'water efficiency' measures), including literature, low-flow showerheads
33 and yard water sprinklers, leak detector tablets, yard watering guides, and other low-cost
34 enticements to reduce water usage. These measures enhance water conservation and
35

1 must continue, because these "tools" may provide a physical signal to consumers to save
2 water by being more efficient.¹⁶

3 Unfortunately, the basic laws of supply and demand have found that "cost" has been
4 proven as an effective way to facilitate long-lasting customer behavioral changes leading to
5 less water demand, e.g., also known as conservation.

6
7 **Q. Do you still believe conservation is necessary for a fair and reasonable rate**
8 **structure?**

9 **A.** Absolutely, yes. The facts presented in Part II remain valid¹⁷ that support this issue in Part I¹⁸
10 as water conservation and sustainment are both critical State of Arizona and Santa Cruz
11 County objectives. Water conservation has been stated also to be an objective of AAWC.

12 **Q. Do you recommend the Commission approve rate structures designed to conserve**
13 **water?**

14 **A.** Yes. We must design, in Arizona, all water rate structures to conserve this diminishing
15 natural resource. Ground water, which is being depleted at high rates throughout the state,
16 cannot be replenished to sustain adequate water resources for future generations. There is
17 no part of Arizona that is sustaining its water resources other than the Santa Cruz Active
18 Management Area, which has only ground water available, and limits our maximum growth.
19 Parts of the Tucson AMA are depleting water at the rate of 4-feet a year, or almost 1-inch a
20 week, with subsidence cracks and land deformations. This is why the Santa Cruz AMA must
21 sustain its water flow to the Tucson AMA is to not dry up a critical water input to the deep
22 Tucson aquifer.

23 The Commission must consider using rate design with steep rate change slopes and
24 more rate block tiers to send clear price signals to consumers to conserve water for the
25 future of our community and our state.
26

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30 ¹⁶ Using the electricity terms from the DOE Demand Side Management dictionary, the electricity terms
31 "conservation", "energy efficiency" and "demand side management (DSM)" were defined to put measures
32 that involve customer behavior changes (conservation), equipment used by consumers to improve
33 efficiency (energy efficiency), and actions by the utility to reduce demand (DSM), then programs can be
34 described as conservation, energy efficient, or DSM. Conservation measures have no direct costs and
35 include rate design; energy efficiency measures do have costs including equipment, literature, and
customer usage displays. DSM requires the utility to take actions.

¹⁷ Magruder Testimony Part II, Section 3.1, pages 7 to 14 with Exhibits MM-6, pages 17 to 20.

¹⁸ Magruder Testimony Part I, Section 2.1, pages 8 to 11 with Exhibits MM-1 to 3, pages 23 to 29.

1 Q. Are you adding too many tiers, with ten instead of the three or up to six tiers (Paradise
2 Valley) used in the other water districts?

3 A. In my opinion, the answer is no.

4 As presently structured, the Company's rate structure has only two price-break points, at
5 4,000 and 20,000 gallons per month. From Table MM-6-1 (Exhibit MM-6), we see that 34.3%
6 of the customer's bills during the test year are for 4,000 gallons or less. When we look at
7 consumptions at the Company's second tier break-point of 20,001 gallons, over 83.2% of the
8 customers bills have been included the first two tiers. The Company's third tier contains
9 16.8% of the remaining customers, and these customers, the highest-water users.

10 The Company's three-tier approach fails to provide any PRICE SIGNALS for almost 60%
11 of the ratepayers in its second tier. This rate structure defect, by exclusion of observable
12 price signals to customers, needs correction action in this rate case. The purpose of this
13 approach is conservation of this precious and diminishing natural resource.

14 Price Signals must be observable in order to be observed by customers, to conserve
15 water, the goal of this process. None of the proposed schemes meet these criteria.
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**4.2 Issue No. 2 – CAPITAL EXPENSES FOR THE TUBAC
ARSENIC REMOVAL FACILITY**

4.2.1 Response to AAWC Mr. Broderick Rebuttal.¹⁹

Q. What were the points made in Mr. Broderick's Rebuttal?

A. His rebuttal states "Mr. Magruder (Direct Testimony pages 11-12) opposes an Arsenic Cost Recovery Mechanism (ARCM), in part, because the Arsenic Removal (or Treatment) Facility is not under construction and outside the Test Year."

As shown in Issue 3 (Rate Consolidation) herein, there should never have been any ARCM cases, any additional charges or assessments because they cause perturbations for small and even large entities. All water districts are similar and periodically require new capital equipment, none of which is inexpensive. When spread across a large company, these asynchronous capital spikes level out. After reviewing Mr. Hebert's testimony,²⁰ it is patently unfair and not reasonable to have ever created a discriminatory funding ARCM.

It is still true that an Arsenic Treatment Facility (ATF) has not been authorized for the Tubac water district as no rebuttal testimony has claimed otherwise. It is also true that this capital project is outside the test year.

Q. Do you recommend that the ARCM process be discontinued?

A. Yes. The Basis for discontinuing ARCM is presented in the Consolidated Rates (Issue 3) in paragraph 4.3 of this testimony, as a single capital project, such as this, is neither fair nor reasonable for a small water district. Obviously, I support complete Rate Consolidation for all five water divisions in this rate case.

Q. Have there been any changes in potential funding for the Tubac ATF?

A. Yes and these have significant potential to greatly reduce or eliminate the cost of the Tubac ATF. These are changing, almost everyday, and as of this testimony, are summarized as follows:

- a. The Santa Cruz Valley Citizens Council (SCVCC), a non-profit IRS section 501(c)3 tax-exempt organization, in cooperation with the Company has submitted a request through Congresswoman Giffords for federal assistance for the funding of this very expensive

¹⁹ Broderick Rebuttal, page 17 at 21 to 18 at 13.

²⁰ See Appendix B, Magruder Exhibit MM-8 and paragraph 4.3.1 herein for the AWC testimony by Mr. Herbert for Rate Consolidation.

1 \$2.3 million arsenic removal facility that would otherwise be paid solely by the
2 Company's 532 customers in Tubac.

- 3 b. The Company, in coordination with the SCVCC, is in the process of requesting federal
4 stimulus assistance through the Arizona Water Infrastructure Facility (WIFA).
5 c. Locally, we are comparing various arsenic treatment facility costs, such as that at the
6 local Baca Float Water Company's ATF. Baca Float's service area boundary is along
7 that of AAWC's boundary, and its operational capabilities meet the demand for some
8 500 customers, very similar and compatible to the AAWC Tubac Water Division.

9
10 **Q. Were you able to conduct an analysis of arsenic and other minerals in Tubac water?**

11 **A.** No. The original data request was timed so that at least two weeks could be devoted to
12 detailed analysis, comparison of options, and determination of trends and statistical analyses
13 to either support or be used to deny overturning the February 2008 EPA letter that removed
14 our three-year exemption. The receipt of a response on 13 February 2009 from a data
15 requests submitted on 9 January 2009 and 15 January 2009 was not satisfactory. I even
16 submitted a "Discovery Dispute"²¹ on 30 January 2009 to the ALJ, the Company and the
17 active parties (RUCO and ACC Staff), without any response from the ALJ.

18 I was not able to conduct the planned analysis in late January due to known schedule
19 conflicts in February, as I am a Senior Tax Advisor Level III for H&R Block. The first two to
20 three weeks in February are defined as "peak" in this profession, when 14+ hour days are
21 the norm.

22 **Q. Did you receive the Point of Use (POU) Information from AAWC in a timely manner?**

23 **A.** No. That data request was dated 15 January 2009 and, like the arsenic data, the Company's
24 response not received until 13 February 2009. I do have a response below; however, time
25 has passed for me to use that data for the purpose intended, as I knew my work schedule
26 would have permitted the planned analysis earlier than when received.

27
28 **Q. Do you have any additional concerns about proposed rates for Arsenic Treatment?**

29 **A.** When compared to all other water districts, the planned costs for this service are the highest
30 in the Company, with an Arsenic Basic Cost of Service at \$25.98 per residential customer
31 and a commodity or volumetric rate of \$3.14 per 1,000 gallons.

32
33
34
35 ²¹ Notice of Filing a Discovery Dispute between Arizona-American Water and Marshall Magruder, dated 30
January 2009.

1 As shown in Part II, Table 3-6²², a customer using 10,000 gallons per month, which is
2 less than average, will have a bill of \$134.10 compared to \$44.34 under the present rates.
3 An average resident uses 11,797 gallons per month. This bill only includes the proposed
4 service and volumetric rate increases in this docket and the proposed ACMR impact. There
5 are additional capital costs expected to include a storage tank, new mains between Well No.
6 4 and Well No. 5, and required equipment replacements.

7 **This is a 302.4% rate increase when arsenic treatment is included!!**

8 It should be obvious why our community is so concerned.
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35 ²² Magruder Testimony Part II, Table 3-6, Impact of Arsenic Charges on Residential Bills, page 15.

4.3 Issue No. 3 – RATE CONSOLIDATION FOR ALL AAWC WATER DISTRICTS

Q. Do you still support consolidation of all the AAWC Water Districts?

A. Yes. The Camelback Inn and Sanctuary's First Set of Data Request and Company's response included prior testimonies by AAWC witness, Mr. Paul Herbert's that supported rate consolidation.²³ This is not a single or a selected group of water districts issue. All water districts should be consolidated into a single tariff for all water districts and one single tariff for all sewage water districts throughout the entire Company.

In general, all RUCO, ACC Staff Direct and AAWC Rebuttal testimonies support tiered rate structures and rate consolidation. There were no recommendations against consolidation; however, the level or degrees of consolidation are where differences lie. These differences will be discussed, as the ultimate decision on the Rate Consolidation issue, in my opinion, has the most significant impact on ratepayers than any other issue in this Rate Case.

4.3.1 Response to AAWC Mr. Herbert Prior Testimony.²⁴

Q. How did Mr. Herbert define "consolidation"?

A. In his New Jersey testimony, he used a different term, "rate equalization", which was defined as follows:

"Rate equalization or single tariff pricing is the use of the same rates for the same service rendered by a water company regardless of the customer's location."²⁵

Q. What basis did Mr. Herbert use to define "rate equalization" (consolidation)?

A. Again, in his New Jersey testimony, he made this very clear as follows:

"Rate equalization is based on the long-term rate stability which results from a single tariff, the operating characteristics of the tariff's groups, the equivalence of services offered, the cost of service on a tariff group basis, and the principle of gradualism."

Q. How can rate equalization, as explained by Mr. Herbert, provide long-term stability for several areas?

A. His New Jersey testimony describes the Arizona situation, as follows:

²³ Hubert NJ-AWC Testimony, Rate Equalization section, pages 16 to 19, which is in Appendix B, as Magruder Exhibit MM-8.

²⁴ Herbert NJ-AWC Testimony.

²⁵ Ibid. Page 16 at 10 to 12.

1 "Utility customer rates are dependent on the total expenses and rate base of the
2 utility and the amount of the commodity which the utility sells. Changes in rate base,
3 particularly, as the result of the Safe Drinking Water Act, have significant potential for
4 adversely impacting the rates for certain areas within a utility.

5 "The ability to absorb the cost of such projects over a larger customer base is a
6 compelling argument in support of rate equalization. Capital programs will never be
7 uniform in the several operating areas, even over periods of 5 to 10 years. The cost
8 of specific programs should be shared by all customers rather than burdening those
9 of the affected areas. Rate increases will be more stable and major increases in
10 specific tariff groups will be avoided."²⁶ [underlined for emphasis]

11 **Q. What impact would Mr. Herbert's approach above have on this AAWC Rate Case?**

12 **A.** First, this would consolidate all capital and other costs into one account, shared equally
13 using one set of rate categories for all customers.

14 Second, this would "equalize" or level out, the ups/downs in all AAWC water districts.

15 Third, this also reduces the rate complexity found in these six very divergent, non-
16 coordinated, and discombobulated rate cases to one rate base and case for all customers.

17 Fourth, by combing ledgers into a consolidated ledger, accounting would be easier; the
18 Company's administrative costs lower, and thus reduce long-term ratepayer costs.

19 In summary, this approach presents a fair and reasonable methodology to share capital
20 and other costs across all similar customers. If Consolidated Rates were fully implemented,
21 as recommended by Mr. Herbert, all customers and the Company benefit. The Commission
22 and RUCO also benefit by being able to concentrate on one set of books instead of many.
23 Separation of "water" and "waste water" into two tariffs is assumed.

24 **Q. How does Mr. Hebert's "rate equalization" handle different operating characteristics in
25 several areas?**

26 **A.** Mr. Herbert discusses this in terms of similarities, as follows:

27 "There are many similarities in the manner in which the several areas [such as
28 Arizona water districts] are operated. All the systems pump their treated water
29 through transmission lines to distribution areas that include mains, booster pump
30 stations and storage facilities. All of the areas rely on a centralized work force for
31 billing, accounting, engineering, administration, and regulatory matters. All of the
32 areas rely on a common source of funds for financing working capital and plant
33 construction. Inasmuch as the costs of operation are related to functions in which the
34 operating characteristics are the same, the use of equal rates is supported."²⁷

35 Mr. Herbert has shown that operational and maintenance activities are, in general, similar for
the long-term, thus consolidation is appropriate. In fact, most of these functions are already

²⁶ Ibid. Page 16 at 17 to page 17 at 4.

²⁷ Ibid. Page 17 at 5 to 14.

consolidated by AAWC; however, they are then "de-consolidated," using traditional formulae, to allocate these costs to back to various AAWC water and sewage water divisions.

Q. Does Mr. Herbert explain how equivalence of offered services supports consolidation?

A. He provides directly applicable evidence that noncontiguous service areas, such as the AAWC districts, should consolidate rates, by stating:

"The use of the same rates in a utility with noncontiguous service areas is supported by the equivalent service rendered in each area. Although there would be considerable debate with respect to the equivalency of the service rendered to different customer classifications, there is no question that the service rendered to a residence in one area is the same as the service rendered to a residence in another area. Residential customers are relatively consistent in their uses of water: cooking, bathing, cleaning and other sanitary purposes, and lawn sprinkling. If customers use water for the same purposes, the service offering is the same and should be priced accordingly. Thus, from this perspective, there is no basis for charging different prices to customers in different areas."²⁸ [underlined for emphasis]

Q. Do variances in allocated costs of the tariff groups warrant the use of separate rate schedules?

A. He stated:

"No, they do not. Charging one group of customers' higher rates because they may be served by a newer plant whose original cost exceeds that of other plants as a result of inflation is not logical. The concepts previously discussed outweigh this consideration and justify the goal of moving toward a single tariff. The electric industry reflects such concepts when it serves customers in geographically dispersed areas. A kilowatt-hour delivered in one area has the same price as a kilowatt-hour delivered in another area despite the fact that cost of service studies could be performed to identify differences in the cost of providing service to customers classes in different regions."²⁹

There is a recent Arizona precedence for Mr. Herbert's comments concerning consolidation of electric rates. In the UNS Electric rate case, the residential and small business rates in Mohave and Santa Cruz County were consolidated, to eliminate decades of higher rates in the smaller county, as I testified there "is no valid basis for continuing separate rates."³⁰

Q. Does Mr. Herbert have other costs of service considerations that support rate consolidation?

A. Yes. The Company [including Arizona-American] has taken a number of steps in recent years to centralize and consolidate its operations. Common costs which must be assigned or allocated to each operating area to establish tariff group revenue

²⁸ Ibid. Page 17 at 15 to 24.

²⁹ Ibid. Page 18 at 1 to 10.

³⁰ See ACC Docket No. E-04204A-96-0783 and ACC Decision No. 70360 of 27 May 2008, page 53 at 14.

requirements include management fees, corporate headquarters costs, office costs, customer service costs, depreciation expense developed on the basis of Company-wide depreciation rates and income tax expense based on total Company financing and tax provisions. The allocation of common costs, while reasonable, are subject to judgment and may not result in the development of tariff group revenue requirements which reflect precisely the cost of serving each area."³¹

Q. How will demographic factors be considered to support rate consolidation?

A. Mr. Herbert discusses how a single tariff will result in higher rate increases in areas where the rates are lower.³² Conversely, a single tariff will have smaller rate increases in areas where rates are higher. This balancing, equalizing or consolidation, makes rates fair and reasonable.

Q. Does Mr. Herbert summarize his rate equalization analysis in this testimony?

A. He supports rate equalization (consolidation) but suggest that it be done using gradualism principles, that is, over several rate cases. This will be further discussed in my conclusion and recommendations below. He specifically stated:

"Rate equalization is appropriate for New Jersey-American. Such pricing is supported by considerations of the benefits of sharing the impact of capital programs on a Company-wide basis, the significant majority of common costs, the equivalent service rendered, electric industry precedent and the per capita income of affected communities. The best interests of the customers are served through gradualism by continuing to implement rate equalization during this case and in subsequent cases."³³

Q. Why have you included so much of Mr. Herbert's prior testimony in this case?

A. Mr. Herbert is a witness for AAWC and providing his excellent background testimony shows that he is one witness that has Company-experience in this matter, and supports consolidation of all financial and operational aspects for all water districts. Whether he will support consolidation of water and sewage water districts will be answered soon, hopefully in the Company's Rejoinder.

4.3.2 Response to RUCO Mr. Rodney Moore Direct Rate Testimony.³⁴

Q. What did Mr. Moore present concerning Rate Consolidation?

³¹ Herbert NJ-AWC Testimony, page 18 at 11 to 19.

³² Ibid. Page 18 at 21 to page 19 at 11. Mr. Herbert uses specific New Jersey demographics; however, testimony by Mr. Moore in paragraph 4.3.2, and Mr. Broderick in paragraph 4.3.3, below, tailors consolidation impacts to Arizona.

³³ Ibid. Page 19, at 12 to 19.

³⁴ Moore Rate Design Testimony, pages 4 and 5, Exhibit B, Rate Consolidation.

1 A. A summary of his testimony is given below. Mr. Moore calculated consolidated rates based
2 on his comprehensive review of the present and Company's proposed rate structures. He
3 precluded the Paradise Valley Water District's rate structure because it had five breakout
4 points (tiers) while the others all had three tiers.

5 His analysis included adjusting the bill determinates to a common set of tiers and similar
6 break-over points; he used a weighted average calculation to determine a single
7 consolidated rate and to determine a single consolidated customer charge

8 For each customer class, meter size, and commodity usage tier, his consolidated rate
9 design generated the same aggregate revenue as the combined recorded test-year
10 revenues from each of the five water districts and their distinctive, unconsolidated rate
11 designs. He then refined the single consolidated rate to accurately proportion revenue
12 generated between residential and commercial ratepayers to reflect the test year values. He
13 further created different monthly rates using the same meter size and different commodity
14 charges for the same consumption.³⁵ His approach was comprehensive and directly relevant.

15
16 Q. **What were the results Mr. Moore determined for a Consolidated Service Charge?**

17 A. In his table of consolidated rate design, he compares service charge rates for each district
18 with his calculated Consolidated Charge of \$9.59 compared to \$15.59 by the Company as
19 shown in Table 4-2 below for residential 5/8 and 3/4-inch meters.

20 This table contains the "service charges" using the AAWC present rates, the RUCO
21 proposed rates, AAWC proposed rates, and ACC Staff proposed rates. These vary between
22 \$8.75 (present Mohave) to \$ 32.50 (AAWC proposed Tubac). Mr. Moore (RUCO) determined
23 a consolidated service charge, using the detailed and comprehensive criteria described
24 above, at \$9.59 (using present rates) while Mr. Broderick (AAWC using proposed, different
25 districts, etc. as discussed in 4.3.3 below) determined a consolidated service charge, using
26 different criteria than Mr. Moore, at \$ 15.59.

27 Using the consolidated service charge value of \$9.59, under Mr. Moore's present rates,
28 we see decreases for Tubac (-\$10.09), Havasu (-\$8.19), and Agua Fria (-\$0.86) and slight
29 increases for Sun City West (+\$0.02) and Mohave (+\$0.85).³⁶ Using Mr. Broderick's
30 consolidated service charge value of \$15.59, using the proposed rates, we see decreases for
31 Tubac (-\$16.91), Paradise Valley and Havasu (-\$12.41), and increases for Agua Fria and
32 Sun City West (+\$0.59) and Mohave Water (+\$3.59).

33
34 ³⁵ Moore Rate Design Testimony, page 4 at 18 to page 6 at 11.

35 ³⁶ Mr. Moore did not include Paradise Valley in his determination for consolidated rates because there are
five tiers while the others all had three tiers for 5/8 and 3/4-inch residential customers.

As stated above by Mr. Hebert, the highest rates will see the largest decreases and the lowest rates, the smallest increases when consolidating.

Table 4-2 Consolidated and Unconsolidated Service Charges for Residential 5/8 and 3/4-inch meters.

Consolidated Service Charge (RUCO)	AAWC Present Rate Design ³⁷					
	Agua Fria	Sun City West	Tubac	Havasus	Mohave Water	Paradise Valley
\$ 9.59³⁸	\$ 10.45	\$ 9.57	\$ 19.68	\$ 17.40	\$ 8.75	\$ 25.18
	RUCO Proposed Rate Design ³⁹					
	\$ 11.87	\$ 13.81	\$ 29.34	\$ 25.66	\$ 10.30	\$ 26.68

Consolidated Service Charge (AAWC) ⁴⁰	AAWC Proposed Rate Design ⁴¹					
	Agua Fria	Sun City West	Tubac	Havasus	Mohave Water	Paradise Valley
\$ 15.59	\$ 15.00	\$ 15.00	\$ 32.50	\$ 28.00	\$ 12.00	\$28.00

Consolidated Service Charge (ACC Staff) ⁴²	ACC Staff Proposed Rate Design ⁴³					
	Agua Fria	Sun City West	Tubac	Havasus	Mohave Water	Paradise Valley
Not located	\$ 14.55	\$ 15.30	\$ 28.73	\$ 24.54	\$ 9.10	\$ 28.00

Q. Did Mr. Moore consolidate commodity (volumetric) usage?

A. Yes. As stated above, he did more than just combine and average, by determining a common three-tier rates for residential customers (5/8 & 3/4-inch) and two-tiers for all other customer categories. Table 4-3 compares this residential rate category using his three rate tiers, for first 4,000 gallons, next 10,000 gallons (to 14,000), and over 14,000 gallons.

Table 4-3 RUCO Consolidated and Unconsolidated Commodity Charges for Residential 5/8 and 3/4-inch meters.

Commodity Usage (at \$/1000 gallons)	AAWC Present Rate Design ⁴⁴					
	RUCO Consolidated Rate	Agua Fria	Sun City West	Tubac	Havasus	Mohave Water
First 4,000 gals	\$1.2443	\$1.5398	\$1.3092	\$1.8900	\$1.6802	\$0.8500
Next 10,000 gals.	\$2.0757	\$2.2198	\$1.7442	\$2.8500	\$2.1852	\$1.3000
Over 14,000 gals.	\$2.3270	\$2.6468	\$2.0102	\$3.4100	\$2.5000	\$1.5000

³⁷ Millsap Testimony, pages 3 to 17.

³⁸ Includes five water districts and excludes the Paradise Valley water district.

³⁹ Moore Rate Design Testimony, Schedules RLM-RD1 for each water district, page 1, line 1.

⁴⁰ Broderick Rebuttal, page 18 at 25 and table on last page (not numbered) of rebuttal.

⁴¹ Millsap Testimony, pages 3 to 17.

⁴² This party was unable to locate any ACC Staff testimony for a consolidated service charge rate.

⁴³ Millsap Testimony, pages 3 to 17.

⁴⁴ Millsap Testimony, pages 3 to 17.

1 This shows that the first tier existing rates range between \$0.85 (Mohave) to \$1.89 (Tubac),
2 second tier between \$1.30 (Mohave) and \$2.85 (Tubac), and third tier between \$1.50
3 (Mohave) and \$3.41 (Tubac).

4 We observe the changes from tier to tier as follows:

	<u>First Tier</u>	<u>Second Tier</u>	<u>Third Tier</u>
Increases:			
• Mohave	+\$0.3943	+\$0.7757	+\$0.8270
Decreases:			
• Sun City West	-\$0.0651	-\$0.3315	-\$0.3168
• Agua Fria	-\$0.2955	-\$0.1442	-\$0.3198
• Havasu	-\$0.4359	-\$0.1094	-\$0.1720
• Tubac	-\$0.6457	-\$0.7443	-\$1.0830

10 Again, the water division with the highest rates received the greatest decrease when
11 consolidated, and the water division with the lowest rates the highest rate increases.
12 However, the largest tier one rate increase (+39.43 cents) is considerably smaller than the
13 rate decrease (-64.57 cents), tier two lowest rate had a slightly higher difference (+3.14
14 cents), and at tier three, the highest rate increase had a significant difference (-61.60 cents).

16 4.3.3 Response to AAWC Mr. Broderick Rebuttal.

18 Q. Did the Company provide consolidated rate information?

19 A. Yes; however, different assumptions were made when compared to those by RUCO in Mr.
20 Broderick's Rebuttal. Table 4-4 shows the AAWC consolidated commodity rates compared to
21 the proposed AAWC rate design.

22 The Company's consolidated commodity rate of \$1.50/1,000 gallons is lower for all "first
23 4000 gallons" except Paradise Valley (+\$0.212) and Mohave (+\$0.29) with decreases for
24 Sun City West (-\$1.380), Agua Fria (-\$1.426), Tubac (-\$2.280) and Havasu (-\$2.522). Again,
25 the water districts with the highest commodity rates, received the greatest rate reductions,
26 while those with the lowest rates, the smallest rate increases.

Table 4-4 AAWC Consolidated and Unconsolidated Commodity Charges for Residential 5/8 and 3/4-inch meters.

AAWC Proposed Rate Design ⁴⁵							
Commodity Usage Blocks (at \$/1000 gallons)	AAWC Consolidated Rates ⁴⁶	Agua Fria	Sun City West	Tubac	Havas Water	Mohave Water	Paradise Valley
First 4,000	\$1.500	\$2.926	\$2.880	\$3.780	\$4.033	\$1.471	\$1.288
4,001-10,000		\$3.463				\$1.625	
4,001-13,000	\$3.463				\$4.196		
4,001-15,000			\$3.171				
4,001-20,000				\$4.850			\$2.233
Over 10,001						\$1.744	
Over 13,001	\$3.670				\$4.555		
Over 14,001							
Over 15,001			\$3.413				
Over 20,001				\$4.950			
20,001-65,000							\$2.796
65,001-125,000							\$3.359
Over 125,001							\$3.879

Q. Did AAWC calculate as the impact of Rate Consolidation on revenue and rates?

A. Based on several assumptions, Mr. Broderick has indicated that "typical" [undefined] Consolidated Bills for 5/8-inch residential customers would be as shown in Table 4-5 below.

Table 4-5 AAWC's Consolidated Rate Impacts for Typical Residential 5/8-inch meter Bills and Total Revenue.⁴⁷

Water District	Typical Bill	Change due to Consolidated Rates	Total Revenue
Tubac	\$41.01	+47.13% rate INCREASE	\$0.3 million
Havas Water	\$35.85	+42.90% rate INCREASE	\$0.6 million
Mohave	\$31.77	+37.22% rate INCREASE	\$1.7 million
Agua Fria	\$30.09	+17.75% rate INCREASE	\$3.5 million
Paradise Valley	\$66.94	+2.95% rate INCREASE	\$0.3 million
Sun City West	\$28.35	-15.69% rate DECREASE	\$1.3 million
Water Districts in the AAWC's Analysis that are NOT in this rate case.			
Sun City	\$32.26	+136.00% rate INCREASE	\$8.4 million
Anthem	\$34.15	+47.74% rate INCREASE	\$44.6 million

Q. Can one compare the Mr. Broderick Consolidated Rates with those of Mr. Moore?

A. No. Mr. Moore did his comprehensive consolidation using the present rates and excluded Paradise Valley, derived common three-tier commodity blocks, while equalizing Company return with that in the Test Year. Mr. Moore's testimony has indicated he intends to update his comprehensive approach in his Surrebuttal based on the Company's Rebuttal.

⁴⁵ Millsap Testimony, pages 3 to 17.

⁴⁶ Broderick Rebuttal, page 18 at 25 and table on last page (not numbered) of rebuttal.

⁴⁷ Ibid. page 6 at 13 to page 7 at 10.

1 Mr. Broderick used the AAWC proposed rates, different water companies, and many
2 different assumptions that make his analysis not suitable to make any decisions in this rate
3 case. Mr. Broderick's analysis is incomplete.

4 Tables 4-3 (Moore) and 4-4 (Broderick) have major differences caused by the divergent
5 assumptions made by Mr. Broderick, in particular the wide variety of "blocks" shows how
6 dysfunctional the existing rate and proposed rate schedules are in this Company. There
7 should be only one block structure for all water districts.

8 **Q. Why do you not like the existing "blocks" used by AAWC?**

9 **A.** First, there appears to be no logic in setting the limits for the blocks. The distribution of the
10 water usage is not a Gaussian (or normal) distribution but more like a chi-squared (X^2)
11 distribution,⁴⁸ with a fast rising peak closer to zero and a long tail. A chi-squared distribution
12 has its mean or cumulative 50% distribution nearer to the origin, thus when an average
13 customer consumes between 7,500 to 12,000 gallons.⁴⁹ The rate structure must make cost
14 "signals" for these near-mean usage customers.

15 Second, we see second tiers that all start at 4,000 gallons to 10,000, 13,000, 15,000,
16 and 20,000 gallons. The range for this "second" tier extends from 6,000 to 14,000 gallons,
17 which is too wide and hard for a consumer to see the price signal to reach (or reduce
18 demand) the first tier. The long chi-squared tail extends for tens and hundreds of thousands
19 gallons with price tiers only in the Paradise Valley after 20,001 gallons.

20 Third, the AAWC Consolidated Rate second tier is 9,000 gallons wide, and still needs to
21 be divided to make obvious and reachable blocks for customers to lower water rates through
22 conservation.

23 Fourth, looking at Table 4-4, we see 13 different tiers used by these six water divisions
24 just for the same rate category. I have proposed using a standard 4,000-gallon blocks in the
25 residential and small commercial rate categories.

26 Furthermore, all larger residential and all commercial commodity rate categories only
27 have two tiers. Many small commercial (5/8 and 3/4-inch), such as in the Tubac district, have
28 very similar consumption demands (with a lower average), as their residential counterparts.
29 These commercial categories should parallel the residential rate tiers. In fact, multiple tier
30 blocks for all other rate categories should be in the resultant tariff from this rate case. Just
31 like the residential category that is discussed extensively, commercial enterprises can and
32

33
34 ⁴⁸ In testimony made my AWC's Mr. Hebert, for a San Jose, California, rate case, he shows curves for
35 various rate distributions. This testimony is found in Appendix B, Magruder Exhibit MM-8.

⁴⁹ See Magruder Testimony Part II, at footnote 10.

1 will look for ways to lower rates, IF THEY CAN, to a lower tier. As the present and proposed
2 rate structure is now constructed with only two tiers, reaching the first tier rates is nearly
3 impossible unless your consumption is just over the second tier break point. At least five
4 tiers for larger meters is recommended, with two breakpoints below the chi-squared mean
5 for example near the 35% and 45% points, the third at 5% past the mean (55%), and fourth
6 and fifth, near the 65% and 80% points on the tail. The additional breakpoints on the tail will
7 provide significantly more revenue to the company as previously shown in Part II, Magruder
8 Exhibit MM-6, and Table 6-1.

9
10 **Q. Did the Company or RUCO consider the other rates and fees for consolidation?**

11 **A.** In Part II of my testimony, I listed miscellaneous "charges" and "fees" used by the Company
12 in Table 3-5.⁵⁰

13 There was no Company rebuttal provided on this recommendation; however, the Millsap
14 Testimony provided these for each water district in his Schedules MEM-1.

15 None of these appear to be isolated by water district but the Company keeps on using
16 different rates/fees for the same service at different water districts. If nothing else happens in
17 this rate case concerning consolidation, this is one easy area to consolidate. Specific areas
18 that should be consolidated include:

- 19 1. General & Administrative (believed to have been completed)
- 20 2. Cost of Service and Volumetric Charges with more and standard tiers deployed
- 21 3. Arsenic treatment costs (service and volumetric) included in 2 above
- 22 4. Taxes, including social security and Medicare, and other Rate Base Costs
- 23 5. Service Line and Meter Installation Charge (change all to "actual cost")
- 24 6. Establish, Re-establish, and Re-connect fees during regular and off hours
- 25 7. Water Meter Test, (if correct) and Re-read the Meter (that is good)
- 26 8. Non-Sufficient Funds to check charges and Late fees, Deferred Payment Finance
27 Charge, Residential and Non-Residential Deposit Interest on Deposits

28 In addition, the Company's Rules and Regulations (R&Rs), submitted, as a part of this
29 rate case, should be consolidated into one document. In a response to a Magruder Data
30 Request, these R&Rs are not available to customers in Spanish.

31 **4.3.4 Response to AAWC Mr. Townsley Rebuttal.**⁵¹

32 **Q. Does the Mr. Townsley Rebuttal show that he supports Rate Consolidation?**

33
34
35 ⁵⁰ Magruder Testimony Part II, Table 3-5, Miscellaneous Charges and Fees, page 14.

⁵¹ Rebuttal Testimony of Paul G. Townsley, AAWC, dated 11 February 2009, hereafter Townsley Rebuttal.

1 A. Most definitely yes, with some reservations. He spends four pages of testimony going into the
2 merits of Rate Consolidation, including almost every point made by Mr. Hebert in paragraph
3 4.3.1 above. Mr. Townsley also discusses the impact of having 13 different rate classes on
4 acquisition of other water companies, and the particular challenges for troubled ones. He has
5 a future oriented vision that can see past the present tariff situation and the numerous
6 benefits that Rate Consolidation will bring to his Company.⁵² He stated:

7 "I strongly support rate consolidation from a philosophical perspective, the
8 practicalities of district consolidation present significant challenges to both the
9 Commission and Arizona-American."⁵³

10 This party agrees with all of the benefits Mr. Townsley discussed.

11 Q. **What are the concerns expressed by Mr. Townsley about Rate Consolidation?**

12 A. First, he is concerned about completing this rate case on schedule to improve the Company's
13 financial situation. He feels any short-term delays will harm the Company.

14 Second, he is concerned about the disparity in average customer water bills due to
15 customer consumption levels and differences in net-plant investment per customer in
16 different districts.

17 Third, he is concerned about "significant public and political consternation" with a likely
18 consequence being an extension to the rate case schedule.⁵⁴

19 Q. **Does Mr. Townsley provide a recommendation to begin consolidation?**

20 A. Yes. He recommends that the Commission "levelize" the net-plant-investment per customer
21 across the districts."⁵⁵ He then suggests that a "surcharge" be created, similar to the electric
22 utilities use of a Systems-Benefit Charge (SBC), to "levelize" differences.

23 I do not support this approach as the SBC process is NOT understood by ratepayers,
24 sets up additional accounting procedures, and this Commission has finally resolved a most
25 challenging and grueling experience in eliminating the SBC by a major electric utility. It was
26 an ugly show that neither I nor anyone else who wants Arizona-American to be successful
27 would wish on their worst enemy. His recommendation is a just partial solution when a
28 complete "accounting reset" should be accomplished that will improve AAWC. The Test Year
29 plus changes gives the Company the solid foundation and basis right now to Consolidate.
30 Don't wait for later, it maybe too late.

31
32
33 ⁵² Townsley Rebuttal, page 11 at 21 to page 15 at 23.

34 ⁵³ Ibid. Page 16 at 6 to 8.

35 ⁵⁴ Ibid. at 8 to 16.

⁵⁵ Ibid. Page 16 at 17 to page 18 at 12.

1 **Q. Do you agree with the Townsley concerns?**

2 **A.** Yes. His is first and foremost concerned about any short-term delay.

3 It is my opinion, that RUCO, ACC Staff, and the Company can produce Consolidated
4 Rate Schedules for review during the forthcoming evidentiary hearings. This will provide
5 three independent views to be reviewed, cross-examined, and full-disclosure provided in
6 public hearings according to the rate case schedule. At worst, a week delay might result; with
7 all the benefits in Mr. Townsley coming to his Company, the ACC Staff, RUCO and to
8 ratepayers like myself.

9 His concern is about the public and political impacts of Consolidation are, in my opinion,
10 minor when compared to the proposed rates by the Company. That public relations damage
11 has already occurred.

12 **Q. What do you recommend that the Commission do with respect to Consolidation?**

13 **A.** I strongly urge the Commission

14 (1) To have this rate case review consolidated financial data (Consolidated Rates) and

15 (2) Based on results of rate base changes, etc., to order the Company to consolidate all
16 aspects of these five companies and

17 (3) In the future rate cases, to require unconsolidated divisions to fully join the new AAWC, as
18 a single fully integrated company instead of individual inefficient smaller, uncoordinated,
19 unconsolidated companies and

20 (4) To Increase the Company's ROI at least 1 to 2 percentage points, as a bonus, above
21 what it would routinely award in this case, in order to reflect the higher risk and potential
22 additional benefits to help reward the Company as its reorganizes into a better entity.

23 Without (4), in my opinion, the energies necessary to respond effectively to these new
24 demands might have less importance to upper management as success has smaller reward.

25 By making bold, objective, and obviously beneficial changes now, consolidation will
26 improve the entire company, and all ratepayers will benefit in the long-term. The present
27 situation is deplorable and almost dysfunctional and is surely not impressive to potential
28 investors, actual shareholders and today's nervous financial community.

29 A strong, united, and more efficient consolidated operation will attract investors, while
30 continuation of the present situation may continue to repel them.

31 I support such action as a result of this rate case with periodic status reports to the
32 Commission as to "lessons learned" so that any mistakes in the consolidation are transparent
33 and the best corrective action, with direct support by the Commission Staff as necessary, to
34 make Arizona-American Water Company the best in Arizona and the Western United States.
35

4.4.1 Response to AAWC Mr. Broderick's Rebuttal.

A. No. In Mr. Broderick's Rebuttal, the proposed "rate case expense does not include any expenses for witness training."⁵⁶

A. NO. Besides this obviously appears like a *quid pro quo* with the above \$10,000 for witness training.

The additional \$10,000 for rate case costs requested to provide a routine response during rate case preparation should be denied.

A. Yes.

3 March 2009

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Appendix B

Exhibit MM-7

**Arizona Revised Statutes, Section 45-454,
Exemption of Small Non-Irrigation Wells; Definitions.**

Quote.

A.R.S. §45-454. Exemption of small non-irrigation wells; definitions

A. Withdrawals of groundwater for non-irrigation uses from wells having a pump with a maximum capacity of not more than thirty-five gallons per minute which were drilled before April 28, 1983 or which were drilled after April 28, 1983 pursuant to a notice of intention to drill which was on file with the department on such date are exempt from this chapter, except that:

1. Wells drilled before June 12, 1980 which are not abandoned or capped or wells which were not completed on June 12, 1980 but for which a notice of intention to drill was on file with the Arizona water commission on such date are subject to subsections J, K and L of this section and must be registered pursuant to section 45-593. If two or more wells in an active management area are exempt under this paragraph and are used to serve the same non-irrigation use at the same location, the aggregate quantity of groundwater withdrawn from the wells shall not exceed fifty-six acre-feet per year.

2. Wells drilled between June 12, 1980 and April 28, 1983, except as provided in paragraph 1 of this subsection, and wells drilled after April 28, 1983 pursuant to a notice of intention to drill which was on file with the department on April 28, 1983, are subject to subsections G, I, J and K of this section.

B. Withdrawals of groundwater for non-irrigation uses from wells having a pump with a maximum capacity of not more than thirty-five gallons per minute drilled on or after April 28, 1983, except wells drilled after April 28, 1983 pursuant to a notice of intention to drill which was on file with the department on such date, are exempt from this chapter, except that:

1. Such wells are subject to subsections G through K of this section.

2. In an active management area, other than a subsequent active management area designated for a portion of a groundwater basin in the regional aquifer systems of northern Arizona, withdrawals of groundwater from such wells for non-irrigation uses other than domestic purposes and stock watering shall not exceed ten acre-feet per year.

3. In a subsequent active management area that is designated for a portion of a groundwater basin in the regional aquifer systems of northern Arizona, groundwater withdrawn from such wells may be used only for domestic purposes and stock watering.

C. On or after January 1, 2006, an exempt well otherwise allowed by this section may not be drilled on land if any part of the land is within one hundred feet of the operating water distribution system of a municipal provider with an assured water supply designation within the boundaries of an active management area established on or before July 1, 1994, as shown on a digitized service area map provided to the director by the municipal provider and updated by the municipal provider as specified by the director.

1 Exhibit MM-7 (Con't)

2 D. On request from the owner of the land on which an exempt well is prohibited pursuant to
3 subsection C of this section on a form prescribed by the director, the director shall issue an
4 exemption from subsection C of this section if the landowner demonstrates to the satisfaction of the
5 director that any of the following applies:

6 1. The landowner submitted a written request for service to the municipal provider that operates
7 the distribution system and the municipal provider did not provide written verification to the
8 landowner within thirty calendar days after receipt of the request that water service is available to the
9 landowner after payment of any applicable fee to the municipal provider.

10 2. The total capital cost and fees for connecting to the operating water distribution system exceed
11 the total capital cost and fees for drilling and fully equipping an exempt well.

12 3. If the applicant must obtain an easement across other land to connect to the water distribution
13 system of the municipal provider, the applicant sent the owner of the land a request for the easement
14 by certified mail, return receipt requested, and either the applicant did not receive a response to the
15 request within thirty calendar days of mailing the request or the request was denied.

16 4. The landowner does not qualify for an exemption pursuant to paragraph 1, 2 or 3 of this
17 subsection and the landowner provides written verification from the municipal provider that the
18 landowner shall not receive or request water service from the municipal provider while the exempt
19 well is operational. The exemption for that well is revoked if the landowner or any subsequent
20 landowner receives water service from the municipal provider. In determining whether to approve or
21 reject a permit application filed under section 45-599, the director shall not consider any impacts the
22 proposed well may have on an exempt well drilled pursuant to this paragraph.

23 E. This section does not prohibit a property owner, after January 1, 2006, from drilling a replacement
24 exempt well for a lawful exempt well if the replacement well does not increase the total number of
25 operable exempt wells on the applicant's land.

26 F. A remediation well drilled for the purpose of remediating groundwater is exempt from this section
27 if it meets one of the following:

28 1. The remediation well is for an approved department of environmental quality or United States
29 environmental protection agency remediation program.

30 2. A registered geologist certifies that the remediation well is for the purpose of remediation.

31 G. A person shall file a notice of intention to drill with the director pursuant to section 45-596 before
32 drilling an exempt well or causing an exempt well to be drilled.

33 H. The registered well owner shall file a completion report pursuant to section 45-600, subsection B.

34 I. In an active management area only one exempt well may be drilled or used to serve the same non-
35 irrigation use at the same location, except that a person may drill or use a second exempt well to
serve the same non-irrigation use at the same location if the director determines that all of the
following apply:

1 Exhibit MM-7 (Con't)

2 1. Because of its location, the first exempt well is not capable of consistently producing more than
3 three gallons per minute of groundwater when equipped with a pump with a maximum capacity of
4 thirty-five gallons per minute.

5 2. The second exempt well is located on the same parcel of land as the first exempt well, the
6 parcel of land is at least one acre in size, all groundwater withdrawn from both exempt wells is used
7 on that parcel of land and there are no other exempt wells on that parcel of land.

8 3. Combined withdrawals from both wells do not exceed five acre-feet per year.

9 4. If the second exempt well is drilled after January 1, 2000, the county health authority for the
10 county in which the well is located or any other local health authority that controls the installation of
11 septic tanks or sewer systems in the county has approved the location of the well in writing after
physically inspecting the well site.

12 5. Use of two wells for the same non-irrigation use at the same location is not contrary to the
13 health and welfare of the public.

14 J. An exempt well is subject to sections 45-594 and 45-595.

15 K. Groundwater withdrawn from an exempt well may be transported only pursuant to articles 8 and
16 8.1 of this chapter.

17 L. A person who owns land from which exempt withdrawals were being made as of the date of the
18 designation of the active management area is not eligible for a certificate of grandfathered right for
19 a type 2 non-irrigation use for such withdrawals.

20 M. For the purposes of this section:

21 1. "Domestic purposes" means uses related to the supply, service and activities of households
22 and private residences and includes the application of water to less than two acres of land to
23 produce plants or parts of plants for sale or human consumption, or for use as feed for livestock,
24 range livestock or poultry, as such terms are defined in section 3-1201.

25 2. "Municipal provider" means a city, town, private water company or irrigation district that
26 supplies water for non-irrigation use.

27 3. "Stock watering" means the watering of livestock, range livestock or poultry; as such terms are
28 defined in section 3-1201.

29 End quote.

1 **Exhibit MM-8**

2 **Excerpt from Direct Testimony of Paul R. Hebert before the**
3 **New Jersey Board of Public Utilities.**

4 [Begin Quote]

5
6 STATE OF NEW JERSEY
7 BOARD OF PUBLIC UTILITIES
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13 IN THE MATTER OF THE JOINT PETITION OF
14 NEW JERSEY-AMERICAN WATER COMPANY, INC.,
15 APPROVAL OF INCREASED TARIFF RATES
16 AND CHARGES FOR WATER AND SEWER SERVICE
17 AND OTHER TARIFF REVISIONS
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24 B.P.U. Docket No. WR0 _____

25 O.A.L. Docket No. PUC
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27
28 Direct Testimony of

29 Paul R. Herbert
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9 [Introductory and non-relevant material]
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19 **CONSERVATION RATE PILOT PROGRAM**

20 **33. Q. Please explain the Company's plan to offer conservation rates in a pilot area.**

21
22 A. Pursuant to the order in the last case, the Company contracted to conduct a state-wide
23 conservation-oriented rate study to investigate various conservation rate structures,
24 calculate the impact of alternative conservation rate structures and assess the feasibility of
25 implementing such alternative structures.
26

27 **34. Q. Has the conservation oriented rate study been submitted with the filing?**
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2 Exhibit MM-8 (Cont.)
3

4 A. No, the study will be submitted at a later date and will be supplemented with additional
5 testimony explaining the study and the results.
6

7 **35. Q. Please describe the areas selected for the pilot program.**

8 A. The goal was to select areas representing a good cross-section of the service territory
9 including urban, suburban, coastal and inland communities. The areas include Camden,
10 Egg Harbor, Jamesburg and Ocean Township totaling approximately 25,600 customers.
11

12 **36. Q. Please describe the rates to be used in the pilot program.**

13 A. Based on the preliminary results of the conservation rate study and discussions with
14 management, a three-tier inclining block rate structure was selected to be used for the
15 purposes of the pilot program to be implemented at the conclusion of this case.
16
17

18 The first block will include usage up to 4,000 gallons per month and will be
19 priced at 10% less than the proposed regular GMS rate or 14.2% higher than the existing
20 rate. This block represents the basic needs of a typical household. The second block will
21 include usage from 5,000 to 10,000 gallons per month and will be priced at a rate that is
22 5% higher than the proposed regular GMS rate or 33.3% higher than the existing rate.
23 The third block will include all usage over 10,000 per month and will be priced at a rate
24 that is 15% higher than the proposed regular GMS rate or 46% higher than the existing
25 rate. Further explanation of the rate structures, the price elasticity applied, and the
26 proposed revenue recovery mechanism will be discussed in the final conservation rate
27 study.
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3 **RATE EQUALIZATION**

4 **37. Q. How has the concept of rate equalization influenced the design of proposed rates in**
5 **this case and how will rate equalization evolve in future cases?**

6
7 A. In this case, the proposed customer charges are equalized for all companies and service
8 areas and certain private and public fire rates are consolidated or continue the
9 equalization process. In future cases, the Company plans to continue rate equalization by
10 closing the gap among volumetric rates for all classes as well as the remaining private
11 and public fire rates. The process may take several rate cases until full rate equalization
12 is achieved.
13

14
15 **38. Q. What is rate equalization?**

16
17 A. Rate equalization or single tariff pricing is the use of the same rates for the same service
18 rendered by a water company regardless of the customer's location.
19

20 **39. Q. What is the basis for rate equalization?**

21 A. Rate equalization is based on the long-term rate stability which results from a single tariff,
22 the operating characteristics of the tariff groups, the equivalent services offered, the cost of
23 service on a tariff group basis, and the principle of gradualism.
24

25 **40. Q. Please explain how rate equalization will provide long-term rate stability for the**
26 **several areas.**

27
28 A. Utility customer rates are dependent on the total expenses and rate base of the utility and
29 the amount of the commodity which the utility sells. Changes in rate base, particularly as
30 the result of the Safe Drinking Water Act, have a significant potential for adversely
31 impacting the rates for certain areas within a utility.
32

33 The ability to absorb the cost of such projects over a larger customer base is a compelling argument in
34 support of rate equalization. Capital programs will never be
35

1
2 Exhibit MM-8 (Cont.)

3 uniform in the several operating areas, even over periods of 5 to 10 years. The
4 cost of specific programs should be shared by all customers rather than burdening those of
5 the affected areas. Rate increases will be more stable and major increases in specific tariff
6 groups will be avoided.
7

8 **41. Q. In what manner do the operating characteristics of the several areas support rate**
9 **equalization?**

10
11 A. There are many similarities in the manner in which the several areas are operated. All of
12 the systems pump their treated water through transmission lines to distribution areas that
13 include mains, booster pump stations and storage facilities. All of the areas provide water
14 to individual customers through a service line and meter. All of the areas rely on a
15 centralized work force for billing, accounting, engineering, administration, and regulatory
16 matters. All of the areas rely on a common source of funds for financing working capital
17 and plant construction. Inasmuch as the costs of operation are related to functions in
18 which the operating characteristics are the same, the use of equal rates is supported.
19
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21 **42. Q. Please explain why the equivalence of services offered support rate equalization.**

22
23 A. The use of the same rates in a utility with noncontiguous service areas is supported by the
24 equivalent service rendered in each area. Although there would be considerable debate
25 with respect to the equivalency of the service rendered to different customer
26 classifications, there is no question that the service rendered to a residence in one area is
27 the same as the service rendered to a residence in another area. Residential customers are
28 relatively consistent in their uses of water: cooking, bathing, cleaning and other sanitary
29 purposes, and lawn sprinkling. If customers use water for the same purposes, the service
30 offering is the same and should be priced accordingly. Thus, from this perspective, there
31 is no basis for charging different prices to customers in different areas.
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1 Exhibit MM-8 (Cont.)

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3 **43. Q. Do variances between allocated costs of the tariff groups warrant the use of separate**
4 **rate schedules?**

5 A. No, they do not. Charging one group of customers higher rates because they may be
6 served by a newer plant whose original cost exceeds that of other plants as the result of
7 inflation is not logical. The concepts previously discussed outweigh this consideration
8 and justify the goal of moving toward a single tariff. The electric industry reflects such
9 concepts when it serves customers in geographically dispersed areas. A kilowatt-hour
10 delivered in one area has the same price as a kilowatt-hour delivered in another area
11 despite the fact that cost of service studies could be performed to identify differences in
12 the cost of providing service to customer classes in different regions.
13
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16 **44. Q. Are there other costs of service considerations that support rate equalization?**

17 A. Yes. The Company has taken a number of steps in recent years to centralize and
18 consolidate its operations. Common costs which must be assigned or allocated to each
19 operating area to establish tariff group revenue requirements include management fees,
20 corporate headquarter costs, office costs, customer service costs, depreciation expense
21 developed on the basis of Company-wide depreciation rates and income tax expense based
22 on total Company financing and tax provisions. The allocations of common costs, while
23 reasonable, are subject to judgment and may not result in the development of tariff group
24 revenue requirements which reflect precisely the cost of serving each area.
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30 **45. Q. What demographic factors should be considered to support rate equalization?**

31 A. Single tariff pricing will result in higher rate increases for those service areas where
32 the rates are lower than Service Area 1 (SA-1) until the time when rate equalization is achieved. So I
33 examined the relative personal income statistics nationwide and for the
34
35

1
2 Exhibit MM-8 (Cont.)
3

4 State of New Jersey by county for those areas where higher rate increases will occur. Each affected
5 county has a higher per capita income than the nationwide average. Huntingdon, Mercer,
6 Morris, Somerset and Union Counties all have per capita personal income higher than the
7 New Jersey State average as well. Burlington and Middlesex have slightly lower per
8 capita income (within 10%) of the state average. The only county affected that has a per
9 capita income less than 90% of the state average is Ocean County. However within Ocean
10 County, Plumstead is the only community affected by the higher rate increases. The other
11 Ocean County communities of Bay Head, Lavallette, Montoloking, Brick, Dover and
12 Lakewood are already receiving rates under SA-1. Based on these findings, I conclude
13 that moving toward rate equalization will not be overly burdensome to customers in areas
14 other than SA-1.
15
16
17

18 **46. Q. Briefly summarize your analysis of rate equalization for New Jersey-American**
19 **Water Company.**
20

21 A. Rate equalization is appropriate for New Jersey-American. Such pricing is supported by
22 considerations of the benefits of sharing the impact of capital programs on a Company-
23 wide basis, the significant majority of common costs, the equivalent service rendered,
24 electric industry precedent and the per capita income of the affected communities. The
25 best interests of the customers are served through gradualism by continuing to implement
26 rate equalization during this case and in subsequent rate cases.
27

28
29 **47. Q. Does this conclude your direct testimony?**
30

31 A. Yes, it does.
32
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Exhibit MM-9

**Excerpt from Direct Testimony of Paul R. Hebert before the Public
Utilities Commission of the State of California**

[Begin Quote]

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Suburban Water Systems (U 339-W) for
Authorization to Implement a Low Income Assistance
Program, an Increasing Block Rate Design, and a Water
Revenue Adjustment Mechanism

A.

DIRECT TESTIMONY OF PAUL R. HERBERT

[Introductory material omitted]

Page 2.

Q8. What is the purpose of your testimony in this proceeding?

A8. The purpose of my testimony is to explain Suburban Water Systems ("Suburban") proposed conservation rate structure and associated allowance for price elasticity.

Page 3

PROPOSED CONSERVATION RATE STRUCTURE

Q9. Please explain the why Suburban is filing this application for increasing block rate design for residential customers.

A9. Suburban is filing this application in accordance with D.06-08-017, Ordering Paragraph 2, requires that within 90 days of the issuance of that decision that Suburban file an application for an increasing block rate design for residential customers:

Q10. Please explain the rate design that is included in Suburban's application.

A10. Suburban is proposing a 3-tier increasing block rate design. This means that there are three points where one usage block ends and the next usage block begins, known as "switch-over points". For all users the first switch-over point is at 10 Ccf per month, and the second switch-over point is at 30 Ccf per month.

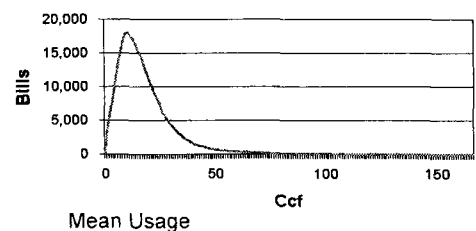
Q11. Please explain the rationale for selecting these switch-over points.

A11. With a balanced rate structure of tiered rates, large usage customers should receive a larger price signal to conserve than small usage customers, and customers consuming in the middle of the rate structure on average should see no change in annual water cost. This should be accomplished by setting the switch-points so that customers with average usage, approximately 20 Ccf per month, should fall in the middle of the second tier and see no change in their water rates.

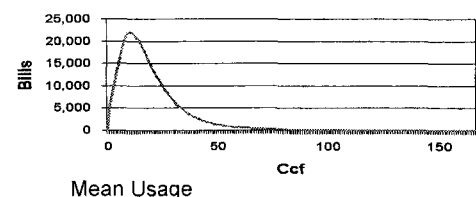
Page 4

In practice we were able to accomplish this in Suburban's Whittier La Mirada service area. But it was not possible to accomplish that precisely in Suburban's San Jose Hills service area. The reason this is difficult to accomplish is because of the lopsided distribution of water use. In both of Suburban's service areas the distribution of consumption shows the typical distribution for water systems, skewed heavily to the right with a hump on the low end and long tail on the high end. For this reason, in the San Jose Hills service

**Whittier/La Mirada Service Area
Bill Distribution**



**San Jose Hills Service Area
Bill Distribution**



area it was not possible to establish rates such that the breakeven usage falls exactly in the middle of the second tier at the level of average usage. Instead the breakeven point falls slightly to the right of 20 Ccf average usage, at about 22 Ccf. We do not believe this is a serious problem, however.

Q12. What is the impact of your proposed rate design on average users?

A12. Again, the average 19 Ccf user in Whittier will see a modest reduction in their water bill, from \$26.68 to \$26.57. Similarly, an average 20 Ccf water user in the San Jose Hills service area will see a reduction from \$27.70 to \$27.46. Customers with progressively higher water use will see progressively larger increases.

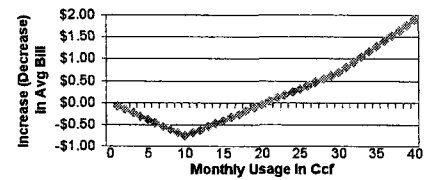
Q13. Please describe in general terms the approach you used in designing these conservation rates.

A13. We performed a detailed analysis of all residential water bills in 2005. We then used those water usage patterns to develop a forecasted usage pattern for 2006/2007 consistent with the adopted water sales approved in Suburban's recent general rate case. We then developed an increasing block rate structure that would generate the Commission-approved level of revenue requirement based on the Commission-approved level of sales. The relative spread between rates for the three zones based on elevation was maintained. And finally, we applied a price elasticity factor to consider the reduction in usage that can be expected to occur as a result of implementing conservation rates.

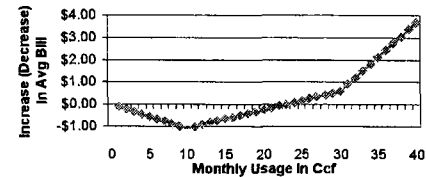
Q14. How did you develop the rates for each of the blocks?

Q14. For the San Jose Hills service area, the first block was designed so as to be 13% lower than the second block, and the second block 13% lower than the third block. For the Whittier/La Mirada Service Area, the first block was designed so as to be 10% lower than the second block, and the second block 10% lower than the third block. An exception had to be made for Zone 3 because of a unique distribution of customer usage. In that area the first block was designed so as to be about 5% lower than the second block, and the second block about 5% lower than the third block

Impact of Proposed Rate Structure On
Average Bill
Whittier/La Mirada Service Area



Impact of Proposed Rate Structure On
Average Bill
San Jose Hills Service Area



PRICE ELASTICITY ADJUSTMENT

Q15. What is a price elasticity adjustment required?

A15. A price elasticity adjustment is needed because without such an adjustment Suburban's revenue requirement would suffer shortfalls as a result of conservation rate related reductions in demand.

Q16. Doesn't the Water Revenue Adjustment Mechanism required by D.06-08-017 provide for recovery of conservation-related revenue shortfalls?

A16. No. The Water Revenue Adjustment Mechanism required by the decision serves to true up revenue based on conservation rates to the level of revenue that would otherwise be generated based on uniform rates. It does not provide for recovery of conservation-related revenue shortfalls?

Q17. Please describe the adjustment for price elasticity.

A17. We used a price elasticity factor of -.4. That means that for a one percent increase in price, customer usage would be reduced by .4%.

Q18. How did you derive the .4% price elasticity factor?

A18. The price elasticity factor was derived from a study concerning price elasticity of water demand in Southern California.⁵⁷

Q19. Does this conclude your direct testimony?

A19. Yes.

[End Quote]

⁵⁷ Conley, Bryan C., *Price Elasticity Of The Demand For Water In Southern California*, The Annals of Regional Science, Vol 1, No 1, December, 1967